中国旭光高新材料集团有限公司

China Lumena New Materials Corp.

(Incorporated in the Cayman Islands with limited liability)

Stock code : 67

2012
ANNUAL REPORT

Contents

Vision and Mission

Vision

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

Mission

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

Corporate Information

Board (the "Board") of directors (the "Directors")

Executive Directors

Mr. Zhang Zhigang *(Chairman)*
Mr. Zhang Daming *(Chief Executive Officer)*
Mr. Yu Man Chiu Rudolf
Mr. Tan Jianyong
Mr. Gou Xingwu

Independent Non-executive Directors

Mr. Koh Tiong Lu, John
Mr. Wong Chun Keung
Mr. Xia Lichuan

Company Secretary

Mr. Wong Kui Tong

Members of the Audit Committee

Mr. Koh Tiong Lu, John *(Chairman)*
Mr. Wong Chun Keung
Mr. Xia Lichuan

Members of the Remuneration Committee

Mr. Xia Lichuan *(Chairman)*
(appointed as Chairman with effect from 1 April 2012)
Mr. Wong Chun Keung *(Ex-Chairman)*
(resigned as Chairman with effect from 1 April 2012)
Mr. Zhang Zhigang

Members of the Nomination Committee

Mr. Wong Chun Keung *(Chairman)*
(appointed as Chairman with effect from 1 April 2012)
Mr. Koh Tiong Lu, John *(Ex-Chairman)*
(resigned as Chairman with effect from 1 April 2012)
Mr. Tan Jianyong

Legal Advisors

As to the law of Hong Kong:
Li & Partners

Independent Auditor

BDO Limited
Certified Public Accountants

Principal Bankers

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

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

Principal Share Registrar and Transfer Office

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

Registered Office

Clifton House, 75 Fort Street
P.O. Box 1350, Grand Cayman
KY1-1108, Cayman Islands

Headquarters and Principal Place of Business in Hong Kong

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

Stock Code

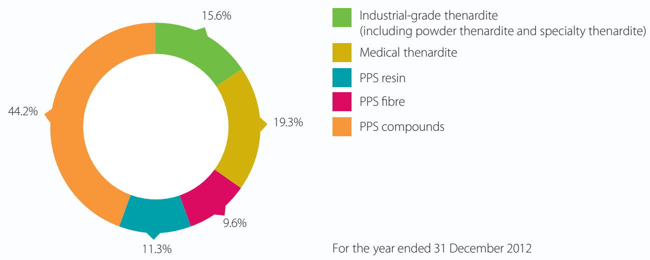
67

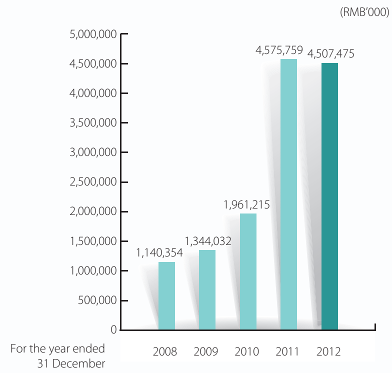
Website

www.lumena.hk

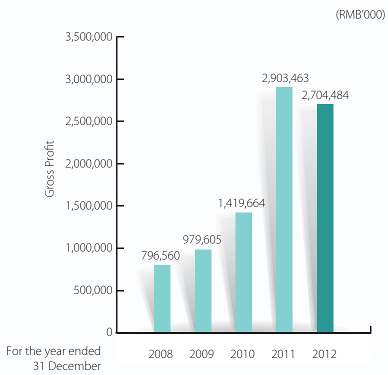
Financial Highlights

Revenue

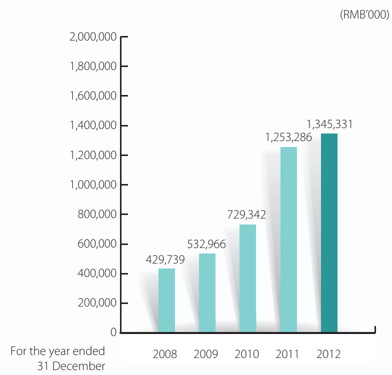




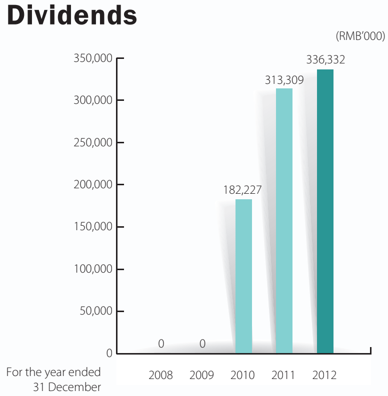
Gross profit



Profit for the year attributable to owners of the Company



Dividends



Chairman's Statement

Dear Shareholders,

It is my pleasure to present you the 2012 annual report of China Lumena New Materials Corp. (the "Company", together with its subsidiaries, the "Group", "we" or "us").

Although the Group encountered the slowdown of economic growth in the People's Republic of China (the "PRC"), the Group continued to capitalise on the state policies in promoting the development of new materials and environmental protection; and expanded our polyphenylene sulfide ("PPS") business aggressively whilst focusing on the exploration of new applications of PPS products which have produced encouraging results. Despite the PRC's economic downturn throughout 2012, the Group's businesses maintained a steady growth. In the long run, the Group expects to sustain a stable and healthy growth in its businesses.

The year of 2012 was a year filled with both opportunities and challenges for the Group. Benefiting from the PRC's persistent economic development, urbanization and industrialization, the sales of PPS products kept growing steadily. On the other hand, the PRC government's proactive support on the new materials industry as well as the gradual improvement of public awareness in environmental protection drove the continuous increase in the demand for PPS whilst this growth momentum is expected to continue in the future. During the year, the Group continued to expand its PPS business by capturing some of the business opportunities created by the state's policies.

For the year ended 31 December 2012, our revenue decreased slightly by approximately 1.5% from RMB4,575.8 million in 2011 to RMB4,507.5 million, among which, the proportion of revenue from PPS business and thenardite business were 65% and 35%, respectively, representing a significant increase on the proportion of revenue from PPS as compared with the previous year. In 2012, our gross profit was RMB2,704.5 million, representing a decrease of approximately 6.9% from RMB2,903.5 million in 2011. Revenue and gross profit decreased primarily because competition in the industrial-grade thenardite market intensified (industrial-grade thenardite includes powder thenardite and specialty thenardite) which exerted pressure on the sales volume and the selling price of our thenardite segment even though the Group's PPS business grew continuously. Our overall gross profit margin decreased by approximately 3.5 percentage points from 63.5% in 2011 to 60.0% in 2012. It was primarily attributable to the change in our product mix (especially the substantial increase in the proportion of revenue from PPS business) and the intensified competition in the domestic industrial-grade thenardite market. The price of our industrial-grade thenardite products experienced downward adjustments in response to changes in the market supply and demand. The gross profit margin of PPS and thenardite was 58.3% and 63.1% respectively for the year ended 31 December 2012. In 2012, the profit attributable to owners of the Company amounted to RMB1,345.3 million, representing an increase of approximately 7.3% as compared with the previous year.

Chairman's Statement

As regards the Group's financial position, China Development Bank ("CDB"), a policy bank of the PRC, has provided support for our development of the new material – PPS. As CDB granted a loan to the Company in October 2012 for a term of 6 years at an interest rate of LIBOR plus 5%, the Group completed the redemption of all outstanding US$250 million 12% senior notes (the "Notes") due 2014 on 30 November 2012. Capitalising on this opportunity, the Group made substantial adjustments and restructured its debt structure in order to reduce finance costs and further improve the financial position of the Company. Meanwhile, the Group is raising our technical standards for capacity expansion of PPS production to meet the increasingly high market requirements in quality and in product mixes.

In November 2012, Moody's Investors Service ("Moody's") upgraded the outlook for our B2 issuer and senior unsecured bond ratings and corporate family rating from negative to positive. The loan facility provided by CDB bears a significantly lower interest rate as compared with the 12% fixed rate senior Notes. Therefore, Moody's anticipates the Group's interest coverage, in the coming one to two years, to remain above 5 times. Moody's will consider to further upgrade the ratings of the Group when our EBITDA/interest coverage exceeds five to six times. The "B2" rating of the Group demonstrates the leading position of our PPS and thenardite products in the Chinese market. We will explore new opportunities for growth by taking full advantage of the government's support for the development of the industry and our existing competitive edges, so as to contribute to the country's development and bring optimal returns to the shareholders of the Company (the "Shareholders").

We believe our PPS business continued to experience promising prospects during the year. According to the latest market research report ("Report") issued by IHS Global, Inc. ("IHS Chemical") (formerly known as SRI Consulting), an independent research institute, the Group remained as the world's largest PPS resin manufacturer in 2012. Due to the stringent technical requirements and high entry barrier of the PPS industry, there is less competition in the PPS production sector. Also, because the current total output still falls short of domestic demand, we believe that there is still ample room for expansion in the domestic PPS industry.

PPS applications are becoming increasingly mature in various markets including the markets of electrical and electronics, automotive and transportation as well as industrial and machinery. Driven by national policies supporting new materials development and environmental protection, PPS is now widely used in the industry of environmental protection. In 2012, production costs of PPS products took on a rising trend while the sales volume of PPS products grew steadily, which contributed a revenue of RMB2,932.4 million to the Group during the year. We will adjust the selling price of PPS products in response to the rise in costs and changes in market conditions. To address the insufficient PPS supply problem and to cope with the fast-growing market demand driven by the environmental industry of the future, we will take a proactive approach in expanding the production capacity of our PPS business.

Thenardite is a common raw material for Chinese medicines and is widely used in clinical applications and the production of Chinese medicines. As such, we believe thenardite possesses considerable market prospects. In 2012, thenardite products contributed approximately RMB1,575.1 million to the revenue of the Group. However, intensified competition in the industrial-grade thenardite market had led to a substantial reduction in the price and sales volume of industrial-grade thenardite as compared with the previous year. On the other hand, the clinical medical thenardite business grew steadily. As the only approved and certified medical thenardite producer in the PRC, we will be committed, whilst leveraging on our advantages, to expand our medical thenardite business and actively develop downstream thenardite products, so as to make our entire industrial chain of thenardite more complete, and make resources utilisation and cost control more efficient.

As the single largest PPS resin producer and one of the largest thenardite producers in the world, we have received a number of awards and certificates during the year in recognition of our achievements in the standard of our production technology, contributions from the applications of our products and advancement in our technology development. These awards represent the country's and the industry's recognitions and acknowledgements of the Company, and will further enhance the Group's image.

In 2012, the "Haton" brand PPS resin, PPS fibre and PPS compound products, the main products of Sichuan Deyang Chemical Co., Ltd. and Sichuan Deyang Special New Materials Co., Ltd., both being wholly-owned subsidiaries of the Group, were recognised in the 10th biennial "Sichuan Famous Brand Products" award by the General Office of the Sichuan People's Government, demonstrating that the quality of our PPS products is well recognised.

In the mean time, Sichuan Chuanmei Mirabilite Co., Ltd., a wholly-owned subsidiary of the Group, actively participated in the formulation of national standards for sodium sulphate. Furthermore, industrial anhydrous sodium sulphate marketed under the "Chuanmei" brand was also recognised in the 10th biennial "Sichuan Famous Brand Products" award and has been recognised for twenty years since 1993. We believe this demonstrates our leading position in the industry.

During the year, the Group was granted the Outstanding Enterprises in Environmental Protection of "Green China" – Environmental Protection Achievement Award of 2012 by the United Nations Environmental Program and Environmental Protection Associations in the PRC, Hong Kong, Macau and Taiwan, which recognised the contributions of the Group and of our PPS fibre products to environmental protection.

In view of the wide range of applications of PPS and thenardite products, the future demand for PPS is expected to grow continuously with tremendous market potential. As a major producer of new materials, the Group highly values the great importance of scientific research. In future, we will focus on new applications research of PPS. We expect to expand the scope of PPS applications through the PPS replacement research and development ("R&D") project in an effort to consolidate our leading position in the industry.

The various achievements made by the Group in 2012 were solely attributable to the dedication of all of our staff. I take this opportunity to express my heartfelt appreciation to fellow members of the Board, the management and all of our staff for their effort and devotion during the year. At the same time, I would like to, on behalf of the Group, express my deepest gratitude to the long-term support of our Shareholders, business partners, customers and suppliers. The Group has great confidence in its future prospects. We believe that the Group will achieve more excellent results in business performance and in bringing maximum return to our Shareholders.

By order of the Board
Chairman
Zhang Zhigang
Hong Kong, 28 March 2013

Management Discussion and Analysis

Financial Review

Income

For the year ended 31 December 2012, our revenue amounted to approximately RMB4,507.5 million (2011: RMB4,575.8 million), representing a slight decrease of approximately 1.5% as compared with the previous year. The decrease in revenue was due to the intensified competition in the industrial-grade thenardite (including powder thenardite and specialty thenardite) market which exerted pressure on our thenardite segment in terms of sales volume and selling price although the Group's PPS business recorded a continuous growth. For the year ended 31 December 2012, PPS and thenardite products contributed a revenue of approximately RMB2,932.4 million and RMB1,575.1 million respectively, representing approximately 65% and 35% of our total revenue respectively which is a significant increase in the proportion of revenue from PPS as compared with the previous year.

Gross Profit and Gross Profit Margin

We recorded a gross profit of approximately RMB2,704.5 million for the year ended 31 December 2012 (2011: RMB2,903.5 million), representing a decrease of approximately 6.9% as compared with the previous year. The decrease in our gross profit was mainly attributable to the sharp slowdown in the PRC's economy since 2011 and the impact on sales of our industrial-grade thenardite products brought about by the intensified competition in the industrial-grade thenardite market. For the year ended 31 December 2012, PPS and thenardite products contributed a gross profit of approximately RMB1,710.5 million and RMB994.0 million respectively.

Our overall gross profit margin was 60.0% for the year ended 31 December 2012 (2011: 63.5%), representing a decrease of approximately 3.5 percentage points as compared with the previous year. The decrease in our overall gross profit margin was primarily attributable to the change in our product mix (especially the substantial increase in the proportion of revenue from PPS business) and intensified competition in the industrial-grade thenardite market. The price of our industrial-grade thenardite products also experienced downward adjustments in response to the change in market supply and demand. The gross profit margin of PPS and thenardite was 58.3% and 63.1% respectively for the year ended 31 December 2012.

Finance Cost

Our finance cost amounted to approximately RMB163.6 million for the year ended 31 December 2012 (2011: RMB423.5 million), which was net of capitalized borrowing cost of approximately RMB429.1 million (2011: RMB74.9 million) and the finance income of approximately RMB64.1 million (2011: RMB5.5 million) of loan commitment of convertible bonds in an aggregate principal amount of USD120,000,000 at an interest rate of 6% per annum (the "Convertible Bonds") with maturity on 12 May 2014, issued to Stable Investment Corporation ("SIC"), a wholly-owned subsidiary of China Investment Corporation and CITIC Capital China Access Fund Limited ("CITIC Capital").

Profit for the Year Attributable to Owners of the Company

For the year ended 31 December 2012, our profit for the year attributable to owners of the Company amounted to approximately RMB1,345.3 million (2011: RMB1,253.3 million), representing an increase of approximately 7.3% as compared with the previous year.

Earnings per Share

For the year ended 31 December 2012, the basic earnings per share was RMB24.05 cents (2011: RMB23.23 cents).

Final Dividend

At the meeting of the Board held on 28 March 2013, the Directors recommended the payment of a final dividend of HK7.49 cents per share (equivalent to approximately RMB6.01 cents per share) for the year ended 31 December 2012 (2011: HK2.58 cents per share (equivalent to approximately RMB2.14 cents per share)) to the Shareholders. The Company maintains its current dividend policy and declared a dividend of around 25% of the net profit attributable to the Shareholders of the Company for the full year of 2012, which is in line with the Company's dividend policy of a payout ratio of around 25% since 2010.

Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company (the "2013 AGM"), the final dividend will be paid to the Shareholders on or about Friday, 18 October 2013 whose names appear on the register of members of the Company at close of business on Friday, 6 September 2013.

The Board, in recognising the profitability for the year ended 31 December 2012 having been outstanding, recommends to the Shareholders with an option to receive the final dividend all in new shares or partly in new shares and partly in cash (the "Scrip Dividend Scheme").

The Scrip Dividend Scheme is conditional upon (i) the passing of the relevant resolution at the 2013 AGM; and (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and the permission to deal in the new shares to be issued under the Scrip Dividend Scheme.

It is expected that the share certificates for new shares to be issued under the Scrip Dividend Scheme will be despatched to the Shareholders by ordinary mail at their own risk on or about Friday, 18 October 2013 and the final dividend will be paid on or about the same date.

A circular, containing details of the Scrip Dividend Scheme together with an election form will be despatched to the Shareholders on or about Thursday, 12 September 2013.

Liquidity and Financial Resources

Borrowings

Our bank and other borrowings and Convertible Bonds amounted to approximately RMB3,959.9 million and RMB849.7 million respectively for the year ended 31 December 2012. Our bank borrowings included secured and unsecured bank loans. Details of interest rate structure and maturity profile of the bank and other borrowings, the Notes and Convertible Bonds are set out in notes 30, 31 and 32 respectively to the financial statements. In November 2012, the Company redeemed all outstanding Notes which were then fully cancelled and delisted from the official list of the Singapore Exchange Securities Trading Limited.

Leverage

The gearing ratio (defined as consolidated total debts divided by consolidated total assets) as at 31 December 2012 was 23.1% (2011: 24.3%) and the net gearing ratio (defined as consolidated net debts divided by consolidated total assets) as at 31 December 2012 was 7.4% (2011: 10.7%).

Pledge of Assets

As at 31 December 2012, the Group's assets in an aggregate amount of approximately RMB837.9 million (2011: RMB1,051.0 million) in forms of property, plant and equipment, land use rights, mining rights and deposits were pledged to financial institutions for credit facilities granted to the Group.

Contingent Liabilities

As at 31 December 2012, we did not have any material contingent liabilities (2011: Nil).

Foreign Currency Exposure

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

Market Review

Looking back at 2012, the global economy was still under a veil of uncertainty. According to the preliminary statistics released by National Bureau of Statistics of the PRC, the PRC's GDP increased approximately by 7.8% in 2012, slightly lower than 2011. It is expected that the market will still remain to be cautious on the domestic economy. The PRC's economic growth is beginning to shift from a rapid pace to one that is steady in which the market will require some time to adapt to this change. To keep up with the pace of the PRC's economic growth, the Group will keep a steady and healthy pace in its business development to meet the accelerating growth in the domestic demand.

PPS Segment

PPS is a material that is resistant to high-temperature, insulative and environmentally friendly. In addition, its properties are stable. It can be used in various industrial productions to replace short-lived and high-cost metal materials. PPS is widely used in the fields of electrical and electronic, automotive, industrial applications and filter bag production. According to the Report issued by IHS Chemical, the total demand for PPS in the PRC is expected to sustain growth in the next five years. There is a continuous undersupply of PPS in the domestic market. As the range of PPS application has been expanding continuously, there will be a continuous growth in the demand of PPS in the PRC.

Actively encouraged and supported by the PRC government's industrial policies, PPS has been adopted as a kind of new materials as set out in the "New Materials Industries under the Twelfth Five-Year Plan". Hence, the PPS segment will be benefited continuously from the PRC government's dedicated support in its development. To implement the "Decision of the State Council on Accelerating the Fostering and Development of Strategic Emerging Industries" (《國務院關於加快培育和發展戰略性新興產業的決定》), the National Development and Reform Commission issued "Guiding Catalogue on Strategic Emerging Industrial Key Products and Services" (《戰略性新興產業重點產品和服務指導目錄》) on 7 March 2013, PPS resin, PPS fibre and filter cloth have been recognized as the key products in the new materials and environmental protection industries, which are adopted to boost the development of strategic emerging industries including the energy-saving and environmentally friendly industries and the new materials industry. Hence, the Group expects to fully develop PPS products by capitalising on relevant favorable policies.

According to the announcement by the Ministry of Environmental Protection on 6 March 2013, the Ministry will implement special emission limits of air pollutants for the thermal power, iron and steel, petrochemical, cement, non-ferrous metal and chemical industries and coal-fired boiler projects in key control regions covering 47 cities that are prefecture-level or above across 19 provinces, autonomous regions and municipalities. In addition, it is expected that the authorities will apply relevant special emission limits to the urban area of the key control regions during the "Thirteenth Five-Year Plan" period.

According to the Emission Standards of Air Pollutants for Thermal Power Plants (GB 13223-2011) (《火電廠大氣污染物排放標準 (GB 13223-2011)》) promulgated by the PRC government in 2011, new environmental protection standards were required to be adopted for thermal power plants as of 1 January 2012. Under the new standards, the emission limit on particulates of newly built thermal power plants has been squeezed from the original 50 mg/m^3 down to 30 mg/m^3, and existing coal-fired power plants are required to meet the new limit by July 2014.

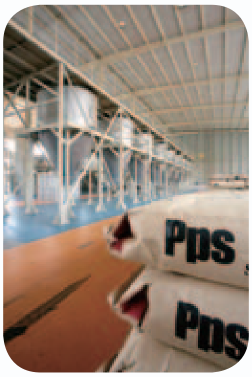
PPS fibre is currently the most cost-effective material for producing filter bags, which has an average useful life of 3 years and is more durable than other similar types of materials, and can be used as environmental filters and filter bags for thermal power plants, cement plants and waste incineration plants due to its outstanding overall performance including being high-temperature resistant and corrosion resistant. It is expected that the increasingly stringent emission standards and strengthened enforcement measures will benefit the sales of PPS fibre in the PRC which will in turn accelerate the increasingly rapid growth in the sales of PPS.

Thenardite Segment

In 2012, the cost of domestic production of thenardite continued to increase. Thenardite is an important raw material for the chemicals industry and other light industries, which is mainly used in the manufacture of detergent, textile dyeing, glass, paper, pharmaceuticals and other products. The intensified competition has put pressure on the selling price and sales volume of industrial-grade thenardite.

Business Review

PPS Business



According to the latest market research report IHS Chemical, we are the largest PPS resin producer in the world in terms of production capacity as of 31 December 2012. Currently, we produce and sell PPS resin, PPS compounds and PPS fibre. PPS is widely used in among other industries such as electrical and electronic, automotive, railway transportation, environmental protection and emissions reduction, aeronautics and astronautics, and coatings application. It has been listed as one of the key new materials in the "Twelfth Five-Year Plan" of the PRC. Currently, we produce four grades of PPS resin (namely injection-moulding-grade, coating-grade, fibre-grade and film-grade). Injection-moulding-grade PPS resin is used to produce PPS compounds, which are primarily used to replace metals and other materials in a number of applications. Coating-grade PPS resin is primarily used to coat metal components and equipment to resist corrosion. Fibre-grade PPS resin is primarily used to make staple PPS fibre and filament PPS fibre which are primarily used to produce PPS filter cloth, and customers apply such cloth to produce filter bags to control smokestack emissions from coal-fired power plants, thermal plants and incinerators. Film-grade PPS resin is primarily applied in the production of photovoltaic cells.

The Group's PPS business was favoured by the CDB, a policy bank of the PRC, and in October 2012, the Group was granted a 6-year term loan facility at an interest rate of LIBOR plus 5% per annum to redeem all of the outstanding Notes of US$250 million in November 2012, Although a loss of approximately RMB131.4 million was incurred for the above early redemption, the interest rate of the loan facility granted by CDB is lower than the interest rate of the Notes. In the same month, Moody's Investors Service, Inc. upgraded the outlook of our B2 issuer rating and senior unsecured bond ratings and corporate family rating from negative to positive.

The Group anticipates that the PRC will raise the standards for environment-related materials and industrial production facilities that are related to the environment. In view of this, the Group will further enhance the industrial standards of its production lines under planning, and also ensure that its production facilities meet safety requirements. In the construction of the new production lines, the Group has made some adjustments in certain technical parameters to satisfy the new requirements. As a result, the operation of the new PPS production lines has been delayed. It is expected that the new PPS resin production line with production capacity of 25,000 tonnes per annum ("tpa") and the PPS fibre production line with production capacity of 15,000 tpa will commence production in the second half of 2013. Furthermore, the construction of the second phase of the PPS resin production line has commenced. The Group anticipates that the completion and operation of the new production line will meet the growing demands for PPS in the PRC and in the rest of the world, and further consolidate our leading position in the industry.

Thenardite Business

We are the only producer in the PRC with the GMP certificate and the National Pharmaceutical Production Permit for medical thenardite. The Group has been committed to developing the medical thenardite market. Currently, medical thenardite can be found in clinical applications and in the production of Chinese medicines. As medical reform is being carried out in the PRC, it is believed that the coverage of medical services to be paid by the PRC government will be expanded, and that thenardite will be used in wider applications for medical purposes as the price of medical thenardite falls within such coverage. The Group remains optimistic about the prospects of the medical thenardite market.

As competition intensified, the selling price and sales volume of industrial-grade thenardite were under pressure. In addition, impairment loss on respective property, plant and equipment of approximately RMB318.0 million, land use rights of approximately RMB7.0 million and a mining right of approximately RMB17.0 million resulted. Hence, the Group proactively adjusted its product structure and began to shift its focus on the promotion of and R&D efforts on medical thenardite. During the year, the Group increased the medical thenardite proportion in our revenue, successfully developed and sold natrii sulfas exsiccatus and medical thenardite for clinical application, in anticipation that these new products can make long-term contribution to the profit of the Group.

Products

PPS Products

As the world's largest PPS resin producer in terms of production capacity, we produce PPS compounds, PPS fibre and PPS resin. Our PPS products are sold under the brand name "Haton" and the trademark "Deyang". The Group's PPS products have been recognised in the 10th biennial "Sichuan Famous Brand Products" award, which provides quality assurance on our PPS products.

PPS Compounds

For the year ended 31 December 2012, we sold approximately 27,608 tonnes (2011: 25,635 tonnes) of PPS compounds and our revenue derived from the sales of PPS compounds amounted to RMB1,991.1 million (2011: RMB1,752.2 million), representing 67.9% (2011: 69.1%) of total revenue from the sales of PPS products.

PPS Fibre

For the year ended 31 December 2012, we sold approximately 4,754 tonnes (2011: 4,636 tonnes) of PPS fibre and our revenue derived from the sales of PPS fibre amounted to RMB432.6 million (2011: RMB408.1 million), representing 14.8% (2011: 16.1%) of total revenue from the sales of PPS products.

PPS Resin

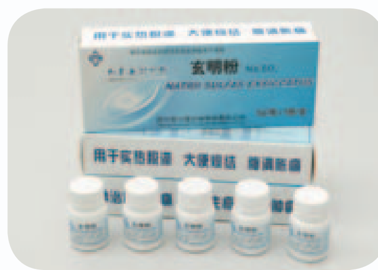
For the year ended 31 December 2012, we sold approximately 7,614 tonnes (2011: 5,778 tonnes) of PPS resin and our revenue derived from the sales of PPS resin amounted to RMB508.6 million (2011: RMB374.7 million), representing 17.3% (2011: 14.8%) of total revenue from the sales of PPS products.

Thenardite Products

We produce medical thenardite and industrial-grade thenardite. As a leading thenardite producer in the PRC, we enjoy strong brand and product recognition amongst downstream industries in the PRC. Our brand “Chuanmei” has been continuously recognized as a “Sichuan Famous Brand Product” since 1993 and the registered trademark “Chuanmei” has been recognised as a “China Well-known Trademark” by the State Administration for Industry and Commerce of the PRC since March 2008.

Medical Thenardite

For the year ended 31 December 2012, we sold approximately 258,203 tonnes (2011: 293,436 tonnes) of medical thenardite and our revenue derived from the sales of medical thenardite amounted to RMB871.8 million (2011: RMB899.1 million), representing 55.3% (2011: 44.1%) of total revenue from the sales of thenardite products.



Industrial-grade Thenardite

For the year ended 31 December 2012, we sold approximately 1,405,471 tonnes (2011: 1,702,933 tonnes) of industrial-grade thenardite and our revenue derived from the sales of industrial-grade thenardite amounted to RMB703.3 million (2011: RMB1,141.2 million), representing 44.7% (2011: 55.9%) of total revenue from the sales of thenardite products.

Operation Review

PPS Production

The Group continued to improve its PPS production capacity and fully utilised its existing production lines to increase product supplies, so as to meet the enormous demand for PPS from the domestic market. For the year ended 31 December 2012, the Group produced an aggregate of approximately 28,228 tonnes of neat PPS resin, 27,694 tonnes of PPS compounds and 4,821 tonnes of PPS fibre. For the year ended 31 December 2012, the Group had a combined PPS resin production capacity of 30,000 tpa (on neat resin basis), PPS compounds production capacity of 30,000 tpa and PPS fibre production capacity of 5,000 tpa.

Our PPS manufacturing bases are respectively located in Deyang City and Shuangliu County, Sichuan Province. As to the plant based in Deyang City, there are currently two PPS resin production lines with a combined production capacity of 24,000 tpa (on neat resin basis) and PPS fibre production line with a production capacity of 5,000 tpa. As for the plant based in Shuangliu County, the production capacities of its PPS resin production line and PPS compounds production line are 6,000 tpa (on neat resin basis) and 30,000 tpa, respectively.

Thenardite Production

The Group currently has a total thenardite production capacity of 2.20 million tpa, and operates four captive underground glauberite mines in Sichuan Province, where medical thenardite and industrial-grade thenardite are produced respectively.

Among these mining areas, the Muma Mining Area (possessing medical thenardite production facility with production capacity of 200,000 tpa) produced an aggregate of approximately 174,006 tonnes of medical thenardite for the year ended 31 December 2012; the Guangji Mining Area (possessing industrial-grade thenardite production facility with a production capacity of 1,100,000 tpa) produced an aggregate of approximately 946,254 tonnes of industrial-grade thenardite for the year ended 31 December 2012; the Yuegou Mining Area (possessing animal feed grade thenardite production facility with a production capacity of 300,000 tpa) produced an aggregate of approximately 255,276 tonnes of animal feed grade thenardite for the year ended 31 December 2012; and the Dahongshan Mining Area (possessing thenardite exploration and production facility with a production capacity of 600,000 tpa, of which 80% to 85% was allocated to industrial-grade thenardite production and 15% to 20% was allocated to medical thenardite production) produced an aggregate of approximately 331,376 tonnes of thenardite for the year ended 31 December 2012.

Future Prospects

Looking forward, there will be vast room for growth in the new materials industry as it will be benefited from national policies adopted to support strategic emerging industries and environmental protection. The Group will continue to focus on the R&D of PPS products in the future, of which, technology development and research activities are of utmost importance. The Group will continue to capitalize on its existing competitive advantages and proactively explore new development opportunities, so as to bring reasonable returns to our Shareholders.

Satisfying Domestic Demand and Enhancing our PPS Business

According to the Report prepared by IHS Chemical, the current PPS production capacity in China is approximately 32,100 tpa, in contrast with the domestic demand of PPS of approximately 46,700 tpa, suggesting there is a short supply of PPS in the market. In addition, the Report also forecasts that domestic demand will continue to grow. In view of this circumstance, the Group expects to maximize its PPS production capacity in order to satisfy market demand and to further consolidate our competitive advantages and leadership in the industry.

Meanwhile, the Group is the largest PPS resin producer in the world in terms of production capacity. PPS is greatly encouraged in the industries policies of the PRC and has been listed as one of the key products in the "New Materials Industries under the Twelfth Five-Year Plan" and has been given strong support and priority in its nurture from the state. Riding on the aggressive development of environmental protection industries in the PRC, the PPS material is gaining importance in various industrial applications. The "Emission Standards of Air Pollutants for Thermal Power Plants" that took effect on 1 January 2012 stipulated that all existing thermal power plants are required to comply with the new standards for emission of air pollutants by July 2014. PPS fibre is currently the most cost-effective material for producing filter bags. In addition, the Ministry of Industry and Information Technology of the PRC announced in January 2013 that it will strive towards prevention and control of air pollution and environmental protection in the future. Implementation of those policies is expected to boost sales of PPS.

In addition, the Group highly values the importance of conducting R&D in new applications of PPS. The Group anticipates to replace metals and other materials with PPS in industrial production through studying the possibility of using PPS as a replacement, so that the Group can continue to expand the scope of product applications, stimulate new demand, increase its market share in the PPS market, and achieve greater profitability.

Concentrating Efforts on Developing Medical Thenardite and Capitalising on the Competitive Advantages of the Group

The Group is the only producer in the PRC with the GMP certificate and the National Pharmaceutical Production Permit for medical thenardite. The Group will look forward to development of medical thenardite business as it expects that the domestic demand for medical thenardite will continue to grow. The Group has confidence in the business prospects of its natrii sulfas exsiccatus and the medical thenardite for clinical use. In the future, the Group will also enhance cooperation with domestic hospitals. The Group expects to expand its domestic sales network for medical thenardite so as to take advantage of the new opportunities brought by the healthcare reform currently being implemented across the PRC.

Research and Development

The Group has always highly valued the importance of R&D activities. The Group's R&D resources are concentrated on its products and their performance. In addition to the R&D of new products, the Group also studies how to improve the performance of its products in order to maintain a track record of producing products that are of excellent quality for the Group. As regards production efficiency, the Group studies how to reduce the cost of labor and raw materials and streamline the production process in order to improve economic efficiency.

As of the end of 2012, the Group obtained a total of 19 invention patents, including 8 PPS patents and 11 thenardite patents. During the year, the Group has participated in the drafting of certain standards for molding and extrusion materials of polyphenylene sulfide (PPS). For example, the proposed standards (i) Part 1: designation system and basic specifications; and (ii) Part 2: preparation of test specimens and determination of properties were included in the "first batch of development and revision plan for state standards in 2012" (Guobiaowei Zonghe [2012] No.50) by the State Standardization Administration. In the meantime, the Group also participated in the development of the textile industry standards of the PRC (standard name: short fibers of PPS; standard number: FZ/T2017-2011) and the revision of the state standards for industrial-grade thenardite (sodium sulfate), as well as the development of the state standards for cosmetic grade thenardite and foodstuff grade thenardite.

The Group is currently proceeding with its R&D plan to study the possibility of using PPS as a replacement for metals. Given its characteristics of excellent thermal insulation property and strong resistance to both high temperature and chemicals, PPS is expected to replace certain metals that are unstable, short-life-cycle and expensive. The Group believes that the R&D plan for using PPS as a metal replacement will provide enormous room for the development of the PPS market, and will help to further increase the Group's market share of PPS products, which will contribute to the Group's profitability in the long run.

Our R&D department constantly conducts studies on new applications for our thenardite products, including the Chinese medicine natrii sulfas exsiccatus and the medical thenardite for clinical use. Natrii sulfas exsiccatus can discharge heat, moisten dryness and soften hard lumps, and therefore is an ideal cure for heat accumulation and stagnation. Medical thenardite has the efficacies of being mildly laxative, anti-inflammatory for colon, detoxifying and helpful for reducing swelling. Each of the two clinical thenardite products has won trust and recognition from hospitals and patients upon commencement of operation. In the future, the Group will continue to study and develop various thenardite products to boost the demand for thenardite and stimulate growth for the industry.

Employees and Remuneration Policies

As at 31 December 2012, we had a total of 2,512 employees (2011: 2,429 employees). Total staff costs (including Directors' remuneration) for the year ended 31 December 2012 were approximately RMB167.0 million (2011: RMB424.8 million), representing 7.4% (2011: 16.8%) of our total operating expenses including cost of sales, selling and distribution expenses and other operating expenses. Employees were remunerated based on their performance, experience and industry practice. We operate a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Bonuses and share options are rewarded based on individual performance for each staff member and in accordance with our overall remuneration policies. Our management reviews the remuneration policies and packages on a regular basis.

Profile of Directors and Senior Management

Executive Directors

ZHANG Zhigang (張志剛), aged 50, is an executive Director and Chairman of the Group. Mr. Zhang is a director of each of Sino Polymer New Materials Co., Ltd. ("Sino Polymer"), Haton Polymer Limited ("Haton Polymer"), 四川得陽特種新材料有限公司 (Sichuan Deyang Special New Materials Co., Ltd.), 四川得陽工程塑料開發有限公司 (Sichuan Deyang Engineering Plastic Development Co., Ltd.) and 四川得陽化學有限公司 (Sichuan Deyang Chemical Co., Ltd.) ("Deyang Chemical"), all being the subsidiaries of the Company, and the chief executive officer of Sino Polymer and its subsidiaries ("Sino Polymer Group"). He joined Sino Polymer Group in 2006. Mr. Zhang has over 10 years of experience in PPS production and 25 years of experience in chemical production management. He has been the chairman of Sichuan Hua Tong Special Plastic Research Centre Co., Ltd. (四川華通特種工程塑料研究中心有限公司) and Sichuan Haton Enterprise Co., Ltd. (四川省華拓實業發展股份有限公司) since 2003 and 2006, respectively. Mr. Zhang was the deputy manager of Sichuan Haton Enterprise Co., Ltd. from 2000 to 2003, which is engaged in chemical production including PPS production. He worked as the general manager in Sichuan Huatong Wood Co., Ltd. (四川華通木業有限公司) from 1998 to 2000 and the manager of securities department in Sichuan Polymer Co., Limited (四川聚酯股份有限公司) from 1996 to 1998. Mr. Zhang was also the manager of the enterprise management department of Zigong Dongxin Electrical Carbon Co., Ltd. (自貢東新電碳股份有限公司) from 1982 to 1996. He currently serves as an adjunct professor of South Western University of Finance and Economics (西南財經大學). He was appointed as an executive Director and Chairman of the Group on 1 April 2011.

ZHANG Daming (張大明), aged 63, is an executive Director and chief executive officer of the Company and its subsidiaries (the "Group"). Mr. Zhang is a senior economist and holds a master degree in Integral Management from Tao University and a bachelor degree in Political Economics from Sichuan University (四川大學). Mr. Zhang Daming worked as the department head and the deputy secretary of Sichuan Provincial Economic System Reform Committee (四川省經濟體制改革委員會) and the general manager of Chuanmei Mirabilite. In addition, he was the general manager of Top Promise Resources Limited (the "Top Promise") and the executive director and general manager of Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), an indirect wholly-owned subsidiary of the Issuer. He was appointed as an executive Director and chief executive officer of the Group on 1 February 2008.

YU Man Chiu Rudolf (余孟釗), aged 38, is an executive Director and the general manager of corporate development. He obtained a bachelor of science degree in Physics from Imperial College, London and a master of science degree in International Management from King's College, London. Mr. Yu previously worked as an Equity Capital Markets banker at both BNP Paribas Capital (Asia Pacific) Limited and Credit Suisse (Hong Kong) Limited. Mr. Yu joined the Group as the general manager of corporate development department of the Issuer in 2009. He was appointed as an executive Director on 3 March 2010.

GOU Xingwu (苟興無), aged 46, is an executive Director. Mr. Gou is an engineer and holds a high diploma in Chemical Industrial Mechanics from Sichuan Luzhou Chemical Industry College (四川省瀘州化工學院). Mr. Gou Xingwu worked as the deputy head of the production department, deputy factory director, factory director, assistant to general manager and the deputy general manager of Chuanmei Mirabilite and the deputy general manager of Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Glauber Salt"), one of the subsidiaries of the Company. Currently, he is an executive director of Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite"), one of the subsidiaries of the Company, and Chuanmei Glauber Salt. He was appointed as an executive Director of the Group on 1 April 2011.

TAN Jianyong (譚建勇), aged 42, is an executive Director. Mr. Tan is a director of each of Sino Polymer, Haton Polymer, Deyang Chemical and Deyang Materials, all being the subsidiaries of the Company. He has also been the chairman of Deyang Chemical and Deyang Materials since 28 January 2010 and 25 January 2010, respectively. Mr. Tan joined Sino Polymer Group on 10 June 2008. Prior to this, he worked as the deputy general manager in Sichuan Deyang Science & Technology Co., Ltd. (四川得陽科技股份有限公司), a company engaged in chemical production including PPS production since 2004. He also worked with Cheng Du Aeroplane Industry Company (成都飛機工業公司) from 1996 to 2004 and was responsible for production management. With his current and previous positions in Sino Polymer Group and other companies, Mr. Tan has over 10 years of experience in machinery and chemical production. Mr. Tan received a bachelor's degree in Huabei Aero Industrial Academy in June 1996. He was appointed as an executive Director of the Group on 1 April 2011.

Independent Non-Executive Directors

KOH Tiong Lu, John (許忠如), aged 57, is an independent non-executive Director. He was a managing director and a senior advisor to The Goldman Sachs Group. He is chairman of the audit committee of the board of directors of NSL Ltd (formerly known as Natsteel Ltd), a publicly traded Singapore conglomerate. Mr. Koh Tiong Lu, John holds a degree of Bachelor of Arts and a degree of Master of Arts from University of Cambridge and is a graduate of Harvard Law School. He was appointed as an independent non-executive Director on 25 May 2009.

WONG Chun Keung (王振強), aged 43, is an independent non-executive Director. Mr. Wong Chun Keung is a practicing barrister in Hong Kong. He obtained a degree of Bachelor of Science and a degree of Master of Business Administration from the University of Hong Kong in 1991 and 1998 respectively. He also holds a degree of Bachelor of Laws from the University of London and the Postgraduate Certificate in Laws from the University of Hong Kong. He was called to the Bar in Hong Kong in 2002 and was in private practice since 2003. He was appointed as an independent non-executive Director on 25 May 2009.

Profile of Directors and Senior Management

XIA Lichuan (夏立傳), aged 49, is an independent non-executive Director, graduated from Anhui University (安徽大學) with a bachelor degree of economics, obtained a master degree of economics from Graduate School of the People's Bank of China (中國人民銀行總行金融研究所) and a master degree of business administration in finance from City University London, and eventually a doctoral degree of philosophy in finance from the Sir John Cass Business School under City University London. Mr. Xia is currently the chief economist of Cypress House Asset Management Company Limited and served as the project manager of the People's Bank of China and the senior manager of the institutional brokerage department of Guotai Junan Securities (Hong Kong) Company Limited. He was appointed as an independent non-executive Director on 3 March 2010.

Senior Management

WONG Kui Tong (黃鉅棠), aged 32, is the company secretary of the Company (the "Company Secretary") and finance manager of the Group. Mr. Wong joined the Group in March 2009 as the accounting manager of Top Promise. Mr. Wong has over 9 years of experience in auditing, accounting and financial management. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and he is also a member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Prior to joining the Group, Mr. Wong worked for PricewaterhouseCoopers for 5 years. Mr. Wong obtained a Bachelor of Arts in Accountancy degree and a Master of Corporate Governance degree from The Hong Kong Polytechnic University.

LUO Hua (羅華), aged 38, is the Chief Financial Officer of the Group. Mr. Luo is a director of each of Deyang Chemical, Deyang Materials and Deyang Plastic, and the chief financial officer of the Group. Mr. Luo is responsible for the Group's financial matters. Prior to joining the the Group in June 2008, Mr. Luo worked with Sichuan Huaqiang Accounting Firm since 2000, where his last position was the chief auditor from 2006 to 2008. With his current and previous positions in the the Group and in Sichuan Huaqiang Accounting Firm, Mr. Luo has over 10 years of experience in accounting and auditing, which is relevant to the management of the Group.

SHAN Tong (單彤), aged 54, is the Marketing Officer of the Group. He joined the the Group in 2008. Prior to this, Mr. Shan worked with Sichuan Jiuda Salt Group Co., Ltd. (四川久大鹽業集團有限公司) from 1996 to 2008, where his last position was the director of the logistics and transportation department. In addition, he served as regional sales manager in Zigong Honghua Co., Ltd. from 1991 to 1995. With his current and previous positions in the the Group and other companies, Mr. Shan has over 18 years of experience in sales and marketing.

LI Hongqing (李洪清), aged 41, is the Production Officer of the Group. Mr. Li is an engineer. He holds a bachelor degree in Business Administration from South Western University of Finance and Economics (西南財經大學) and a high diploma in Chemistry Technology and Engineering from Sichuan United University (四川聯合大學) (now known as Sichuan University (四川大學)). Mr. Li worked as an operator, a controller, the deputy director of the production factory, the director of the production factory, the manager and the deputy general manager of production department of Chuanmei Mirabilite. He is currently the general manager of Chuanmei Mirabilite and the general manager of Chuanmei Glauber Salt.

GOU Liangwu (苟梁武), aged 42, is the Chief Engineer of the Group. Mr. Gou has also been a director of Deyang Chemical and Deyang Materials since 28 January 2010 and 25 January 2010, respectively. He joined the Group in September 2003. Prior to this, he was the deputy general manager of Sichuan Deyang Science & Technology Co., Ltd. from January 2004 to December 2007. Mr. Gou also worked with Zigong Honghua Co., Ltd (自貢鴻鶴化工股份有限公司) from 1993 to 2004, where he participated in the research of PPS technology and production and was also responsible for the operation and engineering management of the chlorine and alkali systems. He was the head of the equipment department and the production technology department from 2000 to 2004. With his current and previous positions in the Group and other companies, Mr. Gou has over 15 years of experience in the PPS industry. Mr. Gou received a bachelor's degree in engineering from Wuhan Institute of Technology in 1992.

LIU Qiru (劉啟儒), aged 58, is the Mining Officer of the Group. Mr. Liu is a senior engineer and holds a high diploma in Mining from Kunming Industrial College (昆明工學院) (now known as Kunming University of Science and Technology (昆明理工大學)). Mr. Liu worked as the deputy mining chief, mining chief, the head and manager of the production and technology department, the chief engineer of Chuanmei Mirabilite and project manager for the construction of the Guangji production facility. Currently, he is the chief engineer of Chuanmei Mirabilite and Chuanmei Glauber Salt.

CAO Bin (曹斌), aged 44, is the Deputy Marketing Officer of the Group. Mr. Cao holds a bachelor degree of International Economic and Trading from Sichuan United University (四川聯合大學) (now known as Sichuan University (四川大學)). Mr. Cao Bin worked as the deputy manager of its sales department, the deputy general manager of the sales and marketing department of Chuanmei Mirabilite.

Report of the Directors

The Directors herein present their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2012.

Principal Activities

The Company's principal activity is investment holding. The Group is principally engaged in the processing and sale of powder thenardite, specialty thenardite and medical thenardite and in the manufacture and sale of PPS products.

Results and Dividends

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 49 to 143.

At the meeting of the Board held on 28 March 2013, the Directors declared a final dividend of HK7.49 cents per share (equivalent to approximately RMB6.01 cents per share) for the year ended 31 December 2012 (2011: HK2.58 cents per share (equivalent to approximately RMB2.14 cents per share)) with an option to receive the dividend in form of new fully paid shares of the Company in lieu of cash. But the Directors do not recommend the payment of a dividend during the interim period of 2012 (2011: HK4.165 cents per share).

Interim and final dividends in aggregate represent 25% of the profit for the year attributable to owners of the Company for the year ended 31 December 2012.

Financial Summary

This summary does not form part of the audited financial statements. A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 144 of this report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2012 are set out in note 16 to the financial statements.

Fixed Rate Senior Notes

Details of fixed rate of 12.0% senior Notes due 2014 with aggregate principal amount of USD250,000,000 are set out in note 31 to the financial statements. In November 2012, the Company redeemed all outstanding Notes and the Notes were fully cancelled.

Borrowings

Particulars of borrowings of the Group as at 31 December 2012 are set out in note 30 to the financial statements.

Share Capital

Details of movements in the share capital of the Group during the year ended 31 December 2012 are set out in note 35 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2012 are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22. (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB8,485,061,000. The amount of RMB10,181,675,000 (as set out in note 36 to the financial statements) standing to the credit of the share premium account of the Company may be distributed, provided that the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Major Customers and Suppliers

For the year ended 31 December 2012, purchases attributable to the Group's largest supplier, excluding purchases of land, amounted to approximately 37.4% of the Group's total purchases and the percentage of turnover attributable to the Group's largest customer amounted to approximately 13.2% of the Group's total turnover.

For the year ended 31 December 2012, the percentage of purchases attributable to the Group's five largest suppliers combined was less than 63.0% of the Group's total purchases and the percentage of turnover attributable to the Group's five largest customers combined was less than 49.0% of the Group's total turnover.

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

Report of the Directors

Directors

The Directors who were in office during the year ended 31 December 2012 and those as at the date of this report are as follows:

Executive Directors:

Mr. Zhang Zhigang *(Chairman)*
Mr. Zhang Daming
Mr. Yu Man Chiu Rudolf
Mr. Gou Xingwu
Mr. Tan Jianyong

Independent Non-executive Directors:

Mr. Koh Tiong Lu, John
Mr. Wong Chun Keung
Mr. Xia Lichuan

In accordance with article 108 of the Company's articles of association (the "Articles of Association"), Mr. Gou Xingwu, Mr. Tan Jianyong and Mr. Xia Lichuan will retire from office at the 2013 AGM and, being eligible, offer themselves for re-election as Directors thereat.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years which may be terminated by not less than three months' notice in writing served by either party on the other. No Director proposed for re-election at the 2013 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 Board has the general power of determining the Directors' remuneration, subject to the authorization of the Shareholders given at the annual general meeting of the Company each year.

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

Directors' Interests in Contracts

Apart from those disclosed in note 41 of the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2012.

Directors' Interests in Competing Businesses

During the year ended 31 December 2012 and up to the date of this report, no Director is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed herein, at no time during the year ended 31 December 2012 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in the Company.

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

As at 31 December 2012, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (the "Model Code") are listed as follows:

Long positions in share options of the Company

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

Name of Director	Date of grant	Number of Shares subject to the share options	Exercise price
Mr. Zhang Daming	30 April 2008	4,218,000	HK$2.00
Mr. Gou Xingwu	30 April 2008	953,000	HK$2.00

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

Name of Director	Date of grant	Number of Shares subject to the share options	Exercise price
Mr. Zhang Zhigang	14 January 2011	7,600,000	HK$3.28
	14 July 2011	12,000,000	HK$3.01
Mr. Zhang Daming	28 July 2009	10,000,000	HK$3.59
	14 July 2011	12,000,000	HK$3.01
Mr. Yu Man Chiu Rudolf	23 April 2010	10,000,000	HK$2.64
	14 July 2011	12,000,000	HK$3.01
Mr. Gou Xingwu	14 July 2011	9,000,000	HK$3.01
Mr. Tan Jianyong	14 January 2011	6,000,000	HK$3.28
	14 July 2011	9,000,000	HK$3.01

Save as disclosed above, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporation which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 352 of the SFO, or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests in the Share Capital of the Company

As at 31 December 2012, so far as is known to any Directors or the chief executive of the Company, the Shareholders, other than the Directors or the chief executive of the Company, who had registered any interest or short position in the shares or the underlying shares representing 5% or more of the nominal value of shares comprised in the relevant share capital of the Company, as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

Interests in the Company

(i) Long positions

Name of Shareholder	Capacity and nature of interest	Number of shares	Approximate percentage of shareholding as at 31 December 2012
Mr. Suo Lang Duo Ji	Interest of a controlled corporation	1,875,846,510	33.53%
Ascend Concept Technology Limited ("Ascend")	Beneficial Owner	1,068,445,707	19.09%
Rich Pass International Ltd.	Interest of a controlled corporation	1,068,445,707	19.09%
Nice Ace Technology Limited	Beneficial Owner	807,396,731	14.43%

Note:

(1) Under the provisions of the SFO, Mr. Suo Lang Duo Ji is deemed to have an interest in 1,875,846,510 Shares of which 1,068,445,707 shares are shares held by Ascend (a company incorporated in the BVI and a wholly owned subsidiary of Rich Pass International Ltd of which its entire share capital is owned by Mr. Suo Lang Duo Ji) and 807,396,731 shares are shares held by Nice Ace Technology Limited (a company incorporated in the BVI of which its entire share capital is owned by Mr. Suo Lang Duo Ji) respectively.

Save as disclosed above, as at 31 December 2012, so far as is known to the Directors or the chief executive of the Company, no other person (who is not a Director or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under Section 336 of the SFO or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

Compliance with Non-Competition Undertaking

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

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

Share Options

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

A. Pre-IPO Share Option Scheme

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

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

Details of the share options granted on 30 April 2008 under the Pre-IPO Share Option Scheme as at 31 December 2012 are as follows:

Name and title of grantees of the share options		Date of grant	Exercise price per share (HK$)	Exercise date (dd/mm/yy) (Note 1) (Note 2)	Number of shares to be issued upon full exercise of options	% of total issued share capital
(i)	**Directors**					
	Mr. Zhang Daming	30 April 2008	2.00	08/07/09 – 16/06/16	4,218,000	0.08%
	Mr. Gou Xingwu	30 April 2008	2.00	08/07/09 – 16/06/16	2,857,000	0.02%
(ii)	**Employees**	30 April 2008	2.00	08/07/09 – 16/06/16	61,743,000	1.10%
(iii)	**Others**	30 April 2008	2.00	08/07/09 – 16/06/16	7,182,000	0.13%
Total					76,000,000	1.33%

Notes:

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

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

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

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

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

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

B. Share Option Scheme

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

There was no grant of share option under the Share Option Scheme during the year ended 31 December 2012.

Details of the share options outstanding as at 31 December 2012 under the Pre-IPO Share Option Scheme and the Share Option Scheme are as follows:

Name or category of grantees	Date of grant	Exercise period	Exercise price (HK$)	Share options held at 1 January 2012	Share options granted during the year	Share options exercised during the year	Share options lapsed during the year	Share options held at 31 December 2012
Directors of the Company								
Mr. Zhang Zhigang	14 January 2011	14 January 2011 to 13 January 2012	3.28	3,800,000	–	–	(3,800,000)	–
	14 January 2011	14 January 2012 to 13 January 2013	3.28	1,900,000	–	–	–	1,900,000
	14 January 2011	14 January 2013 to 13 January 2014	3.28	1,900,000	–	–	–	1,900,000
				7,600,000	–	–	(3,800,000)	3,800,000
	14 July 2011	14 July 2011 to 13 July 2014	3.01	6,000,000	–	–	–	6,000,000
	14 July 2011	14 July 2012 to 13 July 2014	3.01	3,000,000	–	–	–	3,000,000
	14 July 2011	14 July 2013 to 13 July 2014	3.01	3,000,000	–	–	–	3,000,000
				12,000,000	–	–	–	12,000,000
Mr. Zhang Daming	30 April 2008	16 June 2009 to 16 June 2016	2.00	2,109,000	–	–	–	2,109,000
	30 April 2008	16 June 2010 to 16 June 2016	2.00	703,000	–	–	–	703,000
	30 April 2008	16 June 2011 to 16 June 2016	2.00	703,000	–	–	–	703,000
	30 April 2008	16 June 2012 to 16 June 2016	2.00	703,000	–	–	–	703,000
				4,218,000	–	–	–	4,218,000
	14 July 2011	14 July 2011 to 13 July 2014	3.01	6,000,000	–	–	–	6,000,000
	14 July 2011	14 July 2012 to 13 July 2014	3.01	3,000,000	–	–	–	3,000,000
	14 July 2011	14 July 2013 to 13 July 2014	3.01	3,000,000	–	–	–	3,000,000
				12,000,000	–	–	–	12,000,000

Name or category of grantees	Date of grant	Exercise period	Exercise price (HK$)	Share options held at 1 January 2012	Share options granted during the year	Share options exercised during the year	Share options lapsed during the year	Share options held at 31 December 2012
Mr. Yu Man Chiu, Rudolf	23 April 2010	1 January 2012 to 31 December 2012	2.64	2,500,000	–	–	(2,500,000)	–
				2,500,000	–	–	(2,500,000)	–
	14 July 2011	14 July 2011 to 13 July 2014	3.01	6,000,000	–	–	–	6,000,000
	14 July 2011	14 July 2012 to 13 July 2014	3.01	3,000,000	–	–	–	3,000,000
	14 July 2011	14 July 2013 to 13 July 2014	3.01	3,000,000	–	–	–	3,000,000
				12,000,000	–	–	–	12,000,000
Mr. Gou Xingwu	30 April 2008	16 June 2010 to 16 June 2016	2.00	666	–	–	–	666
	30 April 2008	16 June 2011 to 16 June 2016	2.00	476,167	–	–	–	476,167
	30 April 2008	16 June 2012 to 16 June 2016	2.00	476,167	–	–	–	476,167
				953,000	–	–	–	953,000
	14 July 2011	14 July 2011 to 13 July 2014	3.01	4,500,000	–	–	–	4,500,000
	14 July 2011	14 July 2012 to 13 July 2014	3.01	2,250,000	–	–	–	2,250,000
	14 July 2011	14 July 2013 to 13 July 2014	3.01	2,250,000	–	–	–	2,250,000
				9,000,000	–	–	–	9,000,000
Mr. Tan Jianyong	14 January 2011	14 January 2011 to 13 January 2012	3.28	3,000,000	–	–	(3,000,000)	–
	14 January 2011	14 January 2012 to 13 January 2013	3.28	1,500,000	–	–	–	1,500,000
	14 January 2011	14 January 2013 to 13 January 2014	3.28	1,500,000	–	–	–	1,500,000
				6,000,000	–	–	(3,000,000)	3,000,000
	14 July 2011	14 July 2011 to 13 July 2014	3.01	4,500,000	–	–	–	4,500,000
	14 July 2011	14 July 2012 to 13 July 2014	3.01	2,250,000	–	–	–	2,250,000
	14 July 2011	14 July 2013 to 13 July 2014	3.01	2,250,000	–	–	–	2,250,000
				9,000,000	–	–	–	9,000,000
Employees of the Group								
	30 April 2008	16 June 2010 to 16 June 2016	2.00	1,411,006	–	–	–	1,411,006
	30 April 2008	16 June 2011 to 16 June 2016	2.00	9,619,498	–	–	–	9,619,498
	30 April 2008	16 June 2012 to 16 June 2016	2.00	9,619,498	–	–	–	9,619,498
				20,650,002	–	–	–	20,650,002

Name or category of grantees	Date of grant	Exercise period	Exercise price (HK$)	Share options held at 1 January 2012	Share options granted during the year	Share options exercised during the year	Share options lapsed during the year	Share options held at 31 December 2012
	23 April 2010	1 January 2012 to 31 December 2012	2.64	10,400,000	–	–	(10,400,000)	–
				10,400,000	–	–	(10,400,000)	–
	14 January 2011	14 January 2011 to 13 January 2012	3.28	57,720,000	–	–	(57,720,000)	–
	14 January 2011	14 January 2012 to 13 January 2013	3.28	40,580,000	–	–	–	40,580,000
	14 January 2011	14 January 2013 to 13 January 2014	3.28	40,580,000	–	–	–	40,580,000
				138,880,000	–	–	(57,720,000)	81,160,000
	14 July 2011	14 July 2011 to 13 July 2014	3.01	241,300,000	–	–	–	241,300,000
	14 July 2011	14 July 2012 to 13 July 2014	3.01	120,650,000	–	–	–	120,650,000
	14 July 2011	14 July 2013 to 13 July 2014	3.01	120,650,000	–	–	–	120,650,000
				482,600,000	–	–	–	482,600,000
Directors and employees of the Group								
	30 April 2008	16 June 2009 to 16 June 2016	2.00	2,109,000	–	–	–	2,109,000
	30 April 2008	16 June 2010 to 16 June 2016	2.00	2,114,006	–	–	–	2,114,006
	30 April 2008	16 June 2011 to 16 June 2016	2.00	10,322,498	–	–	–	10,322,498
	30 April 2008	16 June 2012 to 16 June 2016	2.00	10,322,498	–	–	–	10,322,498
				24,868,002	–	–	–	24,868,002
	23 April 2010	1 January 2012 to 31 December 2012	2.64	12,900,000	–	–	(12,900,000)	–
				12,900,000	–	–	(12,900,000)	–
	14 January 2011	14 January 2011 to 13 January 2012	3.28	64,520,000	–	–	(64,520,000)	–
	14 January 2011	14 January 2012 to 13 January 2013	3.28	43,980,000	–	–	–	43,980,000
	14 January 2011	14 January 2013 to 13 January 2014	3.28	43,980,000	–	–	–	43,980,000
				152,480,000	–	–	(64,520,000)	87,960,000
	14 July 2011	14 July 2011 to 13 July 2014	3.01	267,550,000	–	–	–	267,550,000
	14 July 2011	14 July 2012 to 13 July 2014	3.01	133,775,000	–	–	–	133,775,000
	14 July 2011	14 July 2013 to 13 July 2014	3.01	133,775,000	–	–	–	133,775,000
				535,100,000	–	–	–	535,100,000
				725,348,002	–	–	(77,420,000)	647,928,002

Purchase, Sale or Redemption of Listed Securities of the Company

The Company has not redeemed, and neither the Company nor any of its subsidiaries has purchased or sold, any of the shares of the Company during the year ended 31 December 2012 and up to the date of this report, except for the redemption of all outstanding Notes in November 2012 as detailed in note 31 to the financial statements and the announcements issued by the Company on 28 October 2012 and 30 November 2012.

Pre-emptive Rights

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

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2012.

Sufficiency of Public Float

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

Compliance with the Corporate Governance Code

Save and except for the Code Provisions A.6.7 and E.1.2 as addressed below, the Company has applied the principles and complied with all Code Provisions and, where appropriate, adopted the recommended best practices set out in the new Corporate Governance Code and the former Code on Corporate Governance Practices for the year ended 31 December 2012. For further information, please refer to the Corporate Governance Report on pages 38 to 46 of this report.

Independence of Independent Non-executive Directors

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

Audit Committee

The Company established the audit committee of the Company (the "Audit Committee") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to assist the Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities assigned by the Board.

The Audit Committee, comprising three members as at the date of this report namely, Mr. Koh Tiong Lu John (the Chairman of the Audit Committee and an independent non-executive Director), Mr. Xia Lichuan (an independent non-executive Director) and Mr. Wong Chun Keung (an independent non-executive Director), has reviewed the accounting principles and practices adopted by the Group. It has also discussed and reviewed the internal controls and financial reporting matters, including the review of the audited consolidated financial results of the Group for the year ended 31 December 2012, with the management of the Company. The Audit Committee is of the opinion that the financial statements have complied with applicable accounting standards, the Listing Rules and the legal requirements and that adequate disclosures have been made.

Post Balance Sheet Events

There are no significant post balance sheet events of the Group after the balance sheet date and up to the date of this report.

Auditors

The financial statements in respect of the previous financial statements were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to the merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO as announced on 26 November 2010, GTHK resigned and BDO was appointed as auditor of the Company with effective from 10 December 2010. The financial statements for the years ended 31 December 2012, 2011 and 2010 were audited by BDO.

A resolution will be proposed at the 2013 AGM to re-appoint BDO as auditor of the Company.

By order of the Board
Zhang Zhigang
Chairman

Hong Kong
28 March 2013

Corporate Governance Report

Corporate Governance Practices

The Board is committed to maintaining a high standard of corporate governance and endeavours in following the Code Provisions of the former Code on Corporate Governance and the new Corporate Governance Code (applicable to financial reports covering a period commencing on 1 April 2012) stipulated by the Stock Exchange in Appendix 14 to the Listing Rules.

Save and except for the Code Provisions A.6.7 and E.1.2 as addressed below, the Company has applied the principles and complied with all Code Provisions and, where appropriate, adopted the recommended best practices set out in the new Corporate Governance Code and the former Code on Corporate Governance Practices for the year ended 31 December 2012.

The first part of Code Provision E.1.2 of the Code states that the Chairman of the Board should attend annual general meeting. In the absence of the Chairman during the Company's annual general meeting held on 27 June 2012, Mr. Zhang Daming, the Chief Executive Officer, took the chair and, together with another executive Director, Mr. Yu Man Chiu Rudolf, made themselves available to answer Shareholders' questions regarding the activities of the Company and various Board committees.

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. The independent non-executive Directors, Mr. Koh Tiong Lu, John, Mr. Wong Chun Keung and Mr. Xia Lichuan were unable to attend the annual general meeting of the Company held on 27 June 2012 as they had overseas and/or other engagements.

Model Code for Securities Transactions (the "Model Code")

The Company has adopted a code of conduct regarding securities transactions by Directors and senior management of the Group on terms no less exacting than the required standard under the Model Code. Having made specific enquiry of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors and senior management during the year ended 31 December 2012.

Board of Directors

The Board is currently composed of five executive Directors, namely Mr. Zhang Zhigang (Chairman), Mr. Zhang Daming (Chief Executive Officer), Mr. Yu Man Chiu Rudolf, Mr. Gou Xingwu and Mr. Tan Jianyong; and three independent non-executive Directors, namely Mr. Koh Tiong Lu, John, Mr. Wong Chun Keung and Mr. Xia Lichuan. The biographical details of the Directors are set out on pages 20 to 23 of this report. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association. Each of the executive Directors and independent non-executive Directors is appointed for a term of three years.

In compliance with Rule 3.10 of the Listing Rules, there are currently three independent non-executive Directors of which one of them possesses appropriate professional accounting qualification, and each of the three independent non-executive Directors has confirmed his independence of the Company and the Company considers each of them to be independent in accordance with the guidelines of assessing independence as set out in Rule 3.13 of the Listing Rules throughout the year ended 31 December 2012.

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. In addition, the Board, in carrying out its corporate governance functions, is responsible for (a) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; (b) reviewing and monitoring the training and continuous professional development of the Directors and senior management; (c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; (d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) reviewing the Company's compliance with the Corporate Governance Code and disclosures in this corporate governance report.

Apart from the regular Board meetings in carrying out the above responsibilities, the Board met on other occasions when a board level decision on a particular matter was required. Each of the members of the Board has full access to relevant information at the meetings. During the year ended 31 December 2012 and up to the date of this report, the Board has convened 10 board meetings and conducted the following activities:

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

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

Details of the Directors' attendance records at the Board meetings during the year ended 31 December 2012 and up to the date of this report are as follows:

	Attendance
Executive Directors	
Mr. Zhang Zhigang	10/10
Mr. Zhang Daming	10/10
Mr. Yu Man Chiu Rudolf	10/10
Mr. Gou Xingwu	10/10
Mr. Tan Jianyong	10/10
Independent non-executive Directors	
Mr. Koh Tiong Lu, John	10/10
Mr. Wong Chun Keung	10/10
Mr. Xia Lichuan	9/10

The overall management of the Group's business is vested in the Board. Apart from meeting regularly to formulate the Group's overall strategies and policies, Key responsibilities of the Board include setting performance targets; evaluating business performance; performing oversight of management; designing, implementing and maintaining internal control relevant to the preparation of true and fair presentation of the financial statements that are free from material misstatements.

On the other hand, the management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group as well as implementing overall strategies and policies determined by the Board.

The roles of the Chairman of the Company and the Chief Executive Officer of the Group are segregated and are not exercised by the same individual.

Each of the three independent non- executive Directors has signed a letter of appointment with the Company for an initial term of three years which may be terminated by not less than three months' notice in writing served by either party on the other.

Annual General Meeting held in 2012

During the year 2012, one annual general meeting of the Company was held on 27 June 2012 in Hong Kong. Details of the Directors' attendance records at the meeting are as follows:

	Attendance
Executive Directors	
Mr. Zhang Zhigang *(Chairman)*	0/1
Mr. Zhang Daming *(Chief Executive Officer)*	1/1
Mr. Yu Man Chiu Rudolf	1/1
Mr. Gou Xingwu	0/1
Mr. Tan Jianyong	0/1
Independent non-executive Directors	
Mr. Koh Tiong Lu, John	0/1
Mr. Wong Chun Keung	0/1
Mr. Xia Lichuan	0/1

In the absence of the Chairman during the Company's annual general meeting held on 27 June 2012, Mr. Zhang Daming, the Chief Executive Officer, took the chair. In the absence of the chairmen of the Board committees, Mr. Zhang Daming, together with another executive Director, Mr. Yu Man Chiu Rudolf, were delegated to answer Shareholders' questions regarding the activities of the Company and various Board committees which constitute a deviation from the Code Provision E.1.2 of the Corporate Governance Code.

The independent non-executive Directors, Mr. Koh Tiong Lu, John, Mr. Wong Chun Keung and Mr. Xia Lichuan were unable to attend the annual general meeting of the Company held on 27 June 2012 as they had overseas and/or other engagements which constitute a deviation from the Code Provision A.6.7 of the Corporate Governance Code.

Nomination Committee

The nomination committee (the "Nomination Committee") is currently a three-member committee, comprising two independent non-executive Directors, namely Mr. Koh Tiong Lu, John (Ex-Chairman) (resigned as Chairman with effect from 1 April 2012) and Mr. Wong Chun Keung (Chairman) (appointed as Chairman with effect from 1 April 2012), and one executive Director, Mr. Tan Jianyong. It was established by the Board and its duties are clearly defined in its written terms of reference which have been prepared and adopted according to the Code Provisions under the Corporate Governance Code.

The major responsibilities of the Nomination Committee include reviewing the structure and the composition of the Board, and making recommendations to the Board on matters relating to Directors' nomination, appointment or reappointment and succession on regular basis. In addition, the Nomination Committee is also responsible for determining (i) the policy for the nomination of Directors to be performed by the Nomination Committee during the year and (ii) the nomination procedures and the process and criteria to be adopted by the Nomination Committee to select and recommend candidates for directorship during the year. In carrying out its functions, the Nomination Committee met one time during the year ended 31 December 2012 and up to the date of this report for discussing the above matters.

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

	Attendance
Executive Director	
Mr. Tan Jianyong	1/1
Independent non-executive Directors	
Mr. Koh Tiong Lu, John	1/1
Mr. Wong Chun Keung	1/1

Remuneration Committee

The Remuneration Committee is currently composed of three members, comprising one executive Director, Mr. Zhang Zhigang and two independent non-executive Directors, namely Mr. Wong Chun Keung (Ex-Chairman) (resigned as Chairman with effect from 1 April 2012) and Mr. Xia Lichuan (Chairman) (appointed as Chairman with effect from 1 April 2012). It was established by the Board and its duties are clearly defined in its written terms of reference which have been prepared and adopted according to the Code Provisions.

The Remuneration Committee meets annually for reviewing the remuneration policies and packages for Directors and senior management of the Company, assessing performance of executive Directors, and approving the terms of executive Directors' service contracts. The Remuneration Committee will make recommendations to the board on the remuneration packages of individual executive Directors, independent non-executive Directors and senior management. No Director takes part in any discussions about his own remuneration. During the year ended 31 December 2012 and up to the date of this report, it has convened three meetings in carrying out the above responsibilities and functions. Particularly, it reviewed the remuneration packages for the newly appointed Directors.

Details of attendance of each member of the Remuneration Committee at the meetings of the Remuneration Committee during the year ended 31 December 2012 and up to the date of this report are as follows:

	Attendance
Executive Directors	
Mr. Zhang Zhigang	3/3
Independent non-executive Directors	
Mr. Wong Chun Keung	3/3
Mr. Xia Lichuan	3/3

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

Auditor's Remuneration

During the year ended 31 December 2012, BDO Limited was appointed as the auditor of the Company. The fees paid/payable to BDO Limited amounted to approximately RMB2,135,000, of which RMB568,000 or approximately 27% were fees for non-audit services performed in relation to the interim review for the period ended 30 June 2012.

Audit Committee

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Koh Tiong Lu, John (Chairman), Mr. Wong Chun Keung and Mr. Xia Lichuan. The Audit Committee has adopted a written set of terms of reference in accordance with the Code Provisions.

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

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

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

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

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

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

Details of attendance records of each member of the Audit Committee at the meetings of the Audit Committee during the year ended 31 December 2012 and up to the date of this report are as follows:

	Attendance
Independent non-executive Directors	
Mr. Koh Tiong Lu, John	3/3
Mr. Wong Chun Keung	2/3
Mr. Xia Lichuan	3/3

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

Directors' and Auditor's Responsibilities for Financial Statements

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 December 2012, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Independent Auditor's Report to the Shareholders on pages 47 to 48 of this report.

Internal Control

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

Directors' Induction and Continuous Professional Development

An induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company will be provided to each newly appointed Director, if any. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and updates all Directors on the regulatory requirements as necessary.

During the year ended 31 December 2012, a memorandum on statutory obligations in relation to disclosure of inside information of a listed issuer in Hong Kong was distributed to all of the Directors as part of their reading material in the continuous professional development plan. The Company confirmed that each of Mr. Zhang Zhigang, Mr. Zhang Daming, Mr. Yu Man Chiu Rudolf, Mr. Tan Jianyong, Mr. Gou Xingwu, Mr. Koh Tiong Lu, John, Mr. Wong Chun Keung, and Mr. Xia Lichuan read the training material as part of their training.

Company Secretary

Mr. Wong Kui Tong, the Company Secretary supports the Chairman, the Board and the Board committees by ensuring good information flow and that policies and procedures of the Board are followed. Mr. Wong advises the Board on governance matters and facilitates the induction and professional development of Directors. The Company Secretary is an employee of the company and is appointed by the Board. Although the Company Secretary reports to the Chairman and the Chief Executive Officer of the Company, all Directors may call upon him for advice and assistance at any time in respect to their duties and the effective operation of the Board and Board committees. The Company Secretary also plays an essential role in the relationship between the Company and its Shareholders, including assisting the Board in discharging its obligations to the Shareholders pursuant to the Listing Rules.

Mr. Wong has confirmed that he has taken no less than 15 hours of relevant professional training in 2012.

Remuneration of Senior Management

The remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration bands (HK$)	Number of person
HK$1,000,000 and under	3
HK$1,000,001 to HK$1,500,000	3
HK$1,500,001 to HK$2,000,000	1
HK$2,000,001 to HK$2,500,000	–

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 15 to the financial statements.

Corporate Communication

The Board recognizes the importance of good communications with all Shareholders. The Company encourages two-way communications with both its institutional and private investors. Extensive information about the Company's activities is provided in its interim report and this annual report, which are sent to the Shareholders. The annual general meeting provides a valuable forum for direct communication between the Board and the Shareholders. The Chairman of the Board as well as the external auditor are present to answer Shareholders' questions. The annual general meeting circulars are distributed to all Shareholders at least 20 clear business days before the meeting. Separate resolutions are proposed at general meetings on each separate issue and voting of which are taken by poll pursuant to the Listing Rules. Any results of the poll are published on the Company's and the Stock Exchange's website. All corporate communication with Shareholders will be posted on the Company's and the Stock Exchange's website for Shareholders' information.

Convening and Putting forward Proposals at General Meetings by Shareholders

Any one or more Shareholder holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings can convene extraordinary general meetings by depositing or sending a written requisition addressed to the Board or Company Secretary for the transaction of any business specified in such requisition.

Such meeting shall be held within two months after the deposit of such requisition. If the Board fails to proceed to convene such meeting within 21 days of the deposit of the requisition, then the requisitionist(s) himself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board will be reimbursed to the requisitionist(s) by the Company.

Procedures by which Enquiries may be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail at the following address:

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

The Company Secretary shall forward the Shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company and where appropriate, respond to such enquiries.

Constitutional Documents

The proposed amendments to the Articles of Associations as described in the circular dated 23 May 2012 were approved by the Shareholders by way of special resolution during the annual general meeting held on 27 June 2012. The amendments were made primarily to reflect updates in the Listing Rules and to perform certain housekeeping changes in the Articles of Association.

Independent Auditor's Report

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TO THE SHAREHOLDERS OF CHINA LUMENA NEW MATERIALS CORP.
中國旭光高新材料集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Lumena New Materials Corp. ("the Company") and its subsidiaries (together "the Group") set out on pages 49 to 143, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong, 28 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Revenue	7	**4,507,475**	4,575,759
Cost of sales		**(1,802,991)**	(1,672,296)
Gross profit		**2,704,484**	2,903,463
Other revenue and gains	8	**81,040**	101,593
Selling and distribution expenses		**(14,437)**	(157,990)
Other operating expenses		**(435,599)**	(694,461)
Impairment loss on property, plant and equipment	16	**(318,000)**	–
Impairment loss on land use rights	18	**(7,000)**	–
Impairment loss on a mining right	20	**(17,000)**	–
Loss on early redemption of fixed rate senior notes	31	**(131,436)**	–
Finance costs	9	**(163,622)**	(423,535)
Profit before income tax	10	**1,698,430**	1,729,070
Income tax expense	11	**(353,099)**	(456,805)
Profit for the year	12	**1,345,331**	1,272,265
Other comprehensive income			
Exchange gain on translation of financial statements of foreign operations		**48,680**	63,065
Other comprehensive income for the year, net of tax		**48,680**	63,065
Total comprehensive income for the year		**1,394,011**	1,335,330

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Profit for the year attributable to:			
Owners of the Company		**1,345,331**	1,253,286
Non-controlling interests		**–**	18,979
		1,345,331	1,272,265
Total comprehensive income attributable to:			
Owners of the Company		**1,394,011**	1,316,351
Non-controlling interests		**–**	18,979
		1,394,011	1,335,330
		RMB cents	RMB cents
Earnings per share for profit attributable to owners of the Company during the year	13		
– Basic		**24.05**	23.23
– Diluted		**23.89**	23.20

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**8,616,584**	7,093,510
Investment properties	17	**104,700**	101,900
Land use rights	18	**275,145**	285,927
Goodwill	19	**5,745,525**	5,745,525
Mining rights	20	**335,074**	366,396
Other intangible assets	21	**1,021,586**	1,130,679
Deposits and prepayments	22	**23,086**	381,096
Pledged deposits	27	**–**	4,000
Deferred tax assets	34	**85,500**	–
		16,207,200	15,109,033
Current assets			
Inventories	24	**73,517**	67,316
Trade and other receivables	25	**1,279,303**	1,362,019
Pledged deposits	27	**34,000**	152,568
Cash and bank balances	28	**3,264,432**	2,631,426
		4,651,252	4,213,329
Current liabilities			
Trade and other payables	29	**837,020**	657,523
Borrowings	30	**1,247,042**	1,737,528
Loan commitment	32	**–**	64,778
Tax payable		**194,036**	185,320
		2,278,098	2,645,149
Net current assets		**2,373,154**	1,568,180
Total assets less current liabilities		**18,580,354**	16,677,213

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Borrowings	30	**2,712,894**	695,823
Fixed rate senior notes	31	**–**	1,537,511
Convertible bonds	32	**849,653**	723,669
Deferred tax liabilities	34	**386,058**	412,547
		3,948,605	3,369,550
Net assets		**14,631,749**	13,307,663
EQUITY			
Share capital	35	**383**	383
Reserves	36(b)	**14,631,366**	13,307,280
Total equity		**14,631,749**	13,307,663

On behalf of the Board

Director **Director**

Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	23	**10,613,432**	10,613,432
Current assets			
Other receivables	25	**27,263**	5,565
Loans to subsidiaries	26	**2,424,270**	2,293,151
Pledged deposits	27	**–**	122,568
Cash and bank balances	28	**21,231**	9,601
		2,472,764	2,430,885
Current liabilities			
Other payables	29	**96,432**	70,048
Borrowings	30	**784,035**	603,784
Amounts due to subsidiaries	26	**64,308**	–
Loan commitment	32	**–**	64,778
		944,775	738,610
Net current assets		**1,527,989**	1,692,275
Total assets less current liabilities		**12,141,421**	12,305,707
Non-current liabilities			
Borrowings	30	**2,466,977**	453,352
Fixed rate senior notes	31	**–**	1,537,511
Convertible bonds	32	**849,653**	723,669
		3,316,630	2,714,532
Net assets		**8,824,791**	9,591,175

Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
EQUITY			
Share capital	35	**383**	383
Reserves	36(a)	**8,824,408**	9,590,792
Total equity		**8,824,791**	9,591,175

On behalf of the Board

Director

Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium* RMB'000	Capital redemption reserve* RMB'000	Employee share-based compensation reserve* RMB'000	Capital contribution* RMB'000	Convertible bonds equity reserve* RMB'000	General reserve* RMB'000	Statutory reserves* RMB'000	Translation reserve* RMB'000	Dividend reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	145	762,890	1	33,242	103,539	–	(211,819)	306,304	90,062	93,000	1,366,030	2,543,394	–	2,543,394
Exercise of share options	3	139,712	–	(16,319)	–	–	–	–	–	–	–	123,396	–	123,396
Issue of convertible bonds (note 32)	–	–	–	–	–	39,255	–	–	–	–	–	39,255	–	39,255
Issue of ordinary shares (note 35 (i))	23	808,246	–	–	–	–	–	–	–	–	–	808,269	–	808,269
Acquisition of subsidiaries (note 35 (ii))	216	8,911,798	–	–	–	–	–	–	–	–	–	8,912,014	187,409	9,099,423
Acquisition of non-controlling interests in a subsidiary	–	–	–	–	–	–	(201,548)	–	–	–	–	(201,548)	(206,388)	(407,936)
Expenses of share issues	–	(50,211)	–	–	–	–	–	–	–	–	–	(50,211)	–	(50,211)
Recognition of share-based payments	–	–	–	157,775	–	–	–	–	–	–	–	157,775	–	157,775
Repurchase and cancellation of shares (note 35 (iii))	(4)	(54,428)	4	–	–	–	–	–	–	–	(4)	(54,432)	–	(54,432)
Dividend paid for 2010	–	–	–	–	–	–	–	–	–	(93,000)	–	(93,000)	–	(93,000)
Interim dividend paid (note 14)	–	–	–	–	–	–	–	–	–	–	(193,600)	(193,600)	–	(193,600)
Proposed final dividend (note 14)	–	–	–	–	–	–	–	–	–	119,709	(119,709)	–	–	–
Transactions with owners	238	9,755,117	4	141,456	–	39,255	(201,548)	–	–	26,709	(313,313)	9,447,918	(18,979)	9,428,939
Profit for the year	–	–	–	–	–	–	–	–	–	–	1,253,286	1,253,286	18,979	1,272,265
Other comprehensive income														
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	–	–	63,065	–	–	63,065	–	63,065
Total comprehensive income for the year	–	–	–	–	–	–	–	–	63,065	–	1,253,286	1,316,351	18,979	1,335,330
Appropriations to statutory reserves	–	–	–	–	–	–	–	121,980	–	–	(121,980)	–	–	–
Lapse of share options	–	–	–	(9,336)	–	–	–	–	–	–	9,336	–	–	–
At 31 December 2011	383	10,518,007	5	165,362	103,539	39,255	(413,367)	428,284	153,127	119,709	2,193,359	13,307,663	–	13,307,663

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital	Share premium*	Capital redemption reserve*	Employee share-based compensation reserve*	Capital contribution*	Convertible bonds equity reserve*	General reserve*	Statutory reserves*	Translation reserve*	Dividend reserve*	Retained profits*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2011 and 1 January 2012	383	10,518,007	5	165,362	103,539	39,255	(413,367)	428,284	153,127	119,709	2,193,359	13,307,663
Recognition of share-based payments	–	–	–	49,784	–	–	–	–	–	–	–	49,784
Dividend paid for 2011	–	–	–	–	–	–	–	–	–	(119,709)	–	(119,709)
Proposed final dividend (note 14)	–	(336,332)	–	–	–	–	–	–	–	336,332	–	–
Transactions with owners	–	(336,332)	–	49,784	–	–	–	–	–	216,623	–	(69,925)
Profit for the year	–	–	–	–	–	–	–	–	–	–	1,345,331	1,345,331
Other comprehensive income												
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	–	–	48,680	–	–	48,680
Total comprehensive income for the year	–	–	–	–	–	–	–	–	48,680	–	1,345,331	1,394,011
Appropriations to statutory reserves	–	–	–	–	–	–	–	144,465	–	–	(144,465)	–
Lapse of share options	–	–	–	(18,598)	–	–	–	–	–	–	18,598	–
At 31 December 2012	**383**	**10,181,675**	**5**	**196,548**	**103,539**	**39,255**	**(413,367)**	**572,749**	**201,807**	**336,332**	**3,412,823**	**14,631,749**

* These reserve accounts comprised the consolidated reserves of approximately RMB14,631,366,000 (2011: RMB13,307,280,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
Cash flows from operating activities		
Profit before income tax	**1,698,430**	1,729,070
Adjustments for:		
Interest income	**(16,780)**	(22,837)
Finance expense	**163,622**	423,535
Depreciation of property, plant and equipment	**412,902**	366,953
Amortisation of land use rights	**5,496**	4,624
Amortisation of mining rights	**14,322**	14,321
Amortisation of other intangible assets	**109,093**	104,909
Equity-settled share-based payments	**49,784**	157,775
Fair value gain on investment properties	**(2,800)**	(4,300)
Write-off of property, plant and equipment	**230**	–
Disposal of property, plant and equipment	**(400)**	(86)
(Reversal of impairment)/Impairment of trade receivables	**(141)**	79,885
Write-off of other receivables	**–**	1,051
Impairment loss on property, plant and equipment	**318,000**	–
Impairment loss on land use rights	**7,000**	–
Impairment loss on a mining right	**17,000**	–
Loss on early redemption of fixed rate senior notes	**131,436**	–
Foreign exchange differences	**(27,774)**	(36,252)
Operating profit before working capital changes	**2,879,420**	2,818,648
(Increase)/Decrease in inventories	**(6,201)**	4,243
Increase in trade and other receivables	**(104,549)**	(120,842)
Decrease in trade and other payables	**(9,823)**	(67,371)
Cash generated from operations	**2,758,847**	2,634,678
Income tax paid	**(456,372)**	(474,836)
Net cash generated from operating activities	**2,302,475**	2,159,842

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
Cash flows from investing activities		
Acquisition of subsidiaries	–	512,595
Interest received	16,780	22,837
Proceeds from disposal of property, plant and equipment	400	145
Decrease/(Increase) in pledged deposits	120,010	(2,132)
(Increase)/Decrease in short-term bank deposits	(103,240)	136,308
Additions to property, plant and equipment	(1,291,608)	(2,571,456)
Deposits paid for acquisition of property, plant and equipment	(1,556)	(140,777)
Payment for purchase of land use rights	(1,714)	(43,669)
Other deposits paid	(1,095)	(6,132)
Refund of deposits paid	6,000	–
Net cash used in investing activities	(1,256,023)	(2,092,281)
Cash flows from financing activities		
Proceeds from new borrowings	3,925,114	1,922,240
Repayment of borrowings	(2,104,965)	(1,386,020)
Dividend paid	(119,709)	(274,984)
Interest paid	(496,361)	(286,953)
Arrangement fee paid for bank borrowings	(67,010)	–
Redemption of fixed rate senior notes	(1,653,509)	–
Proceeds from issuance of share capital	–	931,665
Proceeds from issuance of convertible bonds	–	770,294
Repurchase and cancellation of shares	–	(54,432)
Share issue expenses	–	(50,211)
Net cash (used in)/generated from financing activities	(516,440)	1,571,599
Net increase in cash and cash equivalents	530,012	1,639,160
Cash and cash equivalents at 1 January	2,336,764	703,594
Effect of foreign exchange rate changes, on cash held	(246)	(5,990)
Cash and cash equivalents at 31 December	2,866,530	2,336,764
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	3,264,432	2,631,426
Short-term bank deposits	(397,902)	(294,662)
	2,866,530	2,336,764

1. GENERAL

China Lumena New Materials Corp. (the "Company") was incorporated in the Cayman Islands on 12 April 2007 as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The address of the Company's registered office is located at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and its principal place of business is situated at Unit 7503B, 7504 and 7505 on Level 75 of International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

The Company and its subsidiaries (collectively the "Group") are engaged in the following principal activities during the year:

- Manufacturing and sale of polyphenylene sulfide ("PPS") products including PPS resin, PPS fibre and PPS compounds

- Processing and sale of powder thenardite, specialty thenardite and medical thenardite

Details of the subsidiaries are set out in note 23.

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 28 March 2013.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of amendments to IFRSs – first effective on 1 January 2012

Amendments to IFRS 1	Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets

Except as explained below, the adoption of these amendments has no material impact on the Group's financial statements.

Amendments to IFRS 7 Disclosures – Transfer of Financial Assets

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendments did not have an impact on the Group's financial position, performance or its disclosures.

Amendments to IAS 12 – Deferred Tax – Recovery of Underlying Assets

The amendments to IAS 12 introduce a rebuttable presumption that an investment property which is stated at fair value under IAS 40 "Investment Property" is recovered entirely through sale. The measurement of the deferred tax liability or deferred tax asset reflects the tax consequences of recovering the carrying amount of the investment property entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If this presumption is rebutted, the amount of deferred tax is measured based on the expected manner in which the carrying amount of the investment property would be recovered, using the appropriate tax rates enacted or substantially enacted at the reporting date (see note 4.16).

The Group has investment properties located in the People's Republic of China ("PRC") measured at fair value of approximately RMB104,700,000 as at 31 December 2012 (31 December 2011: RMB101,900,000 and 1 January 2011: Nil) as disclosed in note 17. The Group has rebutted the presumption in respect of its investment properties located in the PRC as they are assessed to be depreciable and are held by a subsidiary with a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time rather than through sale. Deferred tax in relation to these investment properties has not been re-measured.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

(b) New / revised IFRSs that have been issued but are not yet effective

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

IFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to IAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to IFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[4]
IFRS 10	Consolidated Financial Statements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 27 (2011)	Separate Financial Statements[2]
Amendments to IFRS 10, IFRS 12 and IAS27 (2011)	Investment Entities[3]

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

Information on new and amended IFRSs that are expected to affect the Group is as follows:

IFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The Annual Improvements to IFRSs – 2009-2011 Cycle include a number of amendments to various IFRSs, which include: IAS 1 Presentation of Financial Statements, IAS 16 Property Plant and Equipment, IAS 32 Financial Instruments: Presentation and IAS 34 Interim Financial Reporting.

Amendments to IAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

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

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to IAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities

IFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under IAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under IAS 32.

Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds.

The amendments provide an exception to the consolidation requirements in IFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

IFRS 9 – Financial Instruments

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

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

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

IFRS 10 – Consolidated Financial Statements

IFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. IFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of IFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing IAS 27 on other consolidation related matters are carried forward unchanged. IFRS 10 is applied retrospectively subject to certain transitional provisions.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

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

IFRS 13 – Fair Value Measurement

IFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with IFRS 7 "Financial Instruments: Disclosures". IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. IFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these new / revised IFRSs.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The financial statements of the Group on pages 49 to 143 have been prepared in accordance with International Financial Reporting Standards, which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the International Accounting Standards Board ("IASB"), and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by IASB. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

3. BASIS OF PREPARATION *(continued)*

3.2 Basis of measurement

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

The financial statements have been prepared under historical cost basis except for investment properties which have been measured at fair value as explained in the accounting policies set out below.

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

3.3 Functional and presentation currency

The functional currency of the Company is Hong Kong dollars ("HKD"), while the financial statements are presented in Renminbi ("RMB"). As the major subsidiaries of the Group are operating in a RMB environment and the functional currency of the major subsidiaries is RMB, the directors consider that it will be more appropriate to adopt RMB as the Group's and the Company's presentation currency.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

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

4.2 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating polices of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Subsidiaries *(continued)*

In the Company's statement of financial position, interests in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4.3 Business combination and goodwill

Business combinations 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 it measures 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 either 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 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.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 Business combination and goodwill *(continued)*

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

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

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

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

4.4 Property, plant and equipment

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

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Construction-in-progress ("CIP") and asset under construction ("AUC") represent buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost comprises direct costs of construction and acquisition, as well as borrowing costs capitalized during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided on CIP and AUC until it is completed and ready for intended use.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.4 Property, plant and equipment *(continued)*

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

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

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

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

4.5 Investment properties

Investment properties are land and/or buildings which are held under a leasehold interest, either to earn rental income or for capital appreciation or for both. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are measured at cost on initial recognition, including directly attributable costs, and subsequently stated at fair value as determined by external professional valuers to reflect the prevailing market conditions at the end of the reporting period. Any gain or loss resulting from either a change in the fair value or disposal of an investment property is immediately recognised in profit or loss. Rental income from investment properties is accounted for as described in note 4.15.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

4.7 Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on straight-line basis over the lease term.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

4.8 Intangible assets (other than goodwill)

Trademark acquired in a business combination

Trademark acquired in a business combination is identified and recognised separately from goodwill where it satisfies the definition of an intangible asset. It is measured on initial recognition at cost which is the fair value as at the date of acquisition. Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such intangible assets are not amortised.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.8 Intangible assets (other than goodwill) *(continued)*

Trademark acquired in a business combination *(continued)*
The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable.

Customer relationship, patents and technical know-how acquired in a business combination
The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. 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.

4.9 Mining rights

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

4.10 Financial Instruments

(i) Financial assets

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 Financial Instruments *(continued)*

(i) Financial assets *(continued)*

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods to customers, and also incorporate other types of contractual monetary asset. They are subsequently measured at amortised cost using the effective interest method, less any identified impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(ii) Impairment loss on financial assets

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

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- Granting concession to a debtor because of debtor's financial difficulty.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 Financial Instruments *(continued)*

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of impairment loss is recognised in profit or loss of the period in which the impairment occurs. The carrying amount of loans and receivables is directly reduced by any identified amount of impairment. Impaired debts are derecognised when they are assessed as uncollectible.

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

(iii) Financial liabilities

The Group's financial liabilities comprise borrowings, fixed rate senior notes, convertible bonds (note 4.11) and trade and other payables including amounts due to related parties. These are included in the line items in the statement of financial position as borrowings under current or non-current liabilities or trade and other payables.

Financial liabilities at amortised cost

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 Financial Instruments *(continued)*

(iii) Financial liabilities *(continued)*

Financial liabilities at amortised cost (continued)

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

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (note 4.21).

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

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

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

4.11 Convertible bonds

The convertible bonds of U.S. dollars ("USD") 120 million issued by the Company that contain both the liability and conversion option are classified separately into their respective items on initial recognition. As the convertible bonds can be converted to equity share capital at the option of the bondholders, where the number of shares that would be issued on conversion and the value of consideration would be received at that time do not vary, these are accounted for as an equity instrument.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.11 Convertible bonds *(continued)*

The liability component of the convertible bonds of USD120 million is determined using a market rate for an equivalent non-convertible bond. The equity component of the convertible bonds of USD120 million is then the residual after deducting fair value of liability from the fair value of the convertible bonds of USD120 million. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The interest expenses recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds equity reserve until either the convertible bonds are converted or redeemed.

If the convertible bonds are converted, the convertible bonds equity reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, the convertible bonds equity reserve is released directly to retained profits.

4.12 Loan commitment fees received

Upon issuance of the convertible bonds as described in note 4.11, the bondholders were also granted an option to subscribe for the additional convertible bonds in an aggregate principal amount of up to USD100 million (the "loan commitment"). The option is exercisable during the period commencing on the date of completion of the subscription for the convertible bonds and ending on the first anniversary of such date.

If it is probable that the Group will enter into a specific lending arrangement and the loan commitment is not within the scope of IAS 39, the loan commitment fees received is regarded as compensation for the ongoing involvement with the issuance of a financial instrument and is deferred and recognised as an adjustment to the effective interest rate. If the loan commitment expires without the Group making the loan, the fee is recognised as revenue on expiry.

If it is not probable that the Group will enter a specific lending arrangement, and the loan commitment is not within the scope of IAS 39, the loan commitment fees received are recognised as revenue on a time proportion basis over the commitment period.

Loan commitments within the scope of IAS 39 are accounted for as derivatives and measured at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.13 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials	–	Purchase cost on a weighted average basis
Finished goods and work in progress	–	Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity

Net realisable value is the estimated selling price in the ordinary courses of business, less estimated costs of completion and the estimated costs necessary to make the sale.

4.14 Cash and cash equivalents

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

4.15 Revenue recognition

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

i) Revenue from sales of goods is recognised on transfer of risks and rewards of ownership at the time the goods are delivered and the title is passed to customer.

ii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

iii) Rental income under operating leases on investment properties is recognised on straight-line basis over the lease terms.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.16 Income taxes

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

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under IAS 40 “Investment Property”. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.16 Income taxes *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

4.17 Foreign currencies

In preparing the financial statements of individual group entity, transactions in currencies other than the group entity's functional currency (i.e. foreign currency) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.18 Retirement benefits costs

The Group's contributions to the Mandatory Provident Fund Scheme under the Mandatory Provident Fund Schemes Ordinance are expensed as incurred. Both the Group and its employees in Hong Kong are required to contribute 5% of each individual's relevant income with a maximum amount of HKD1,250 per month as a mandatory contribution. Employees may also elect to contribute more than the minimum as a voluntary contribution. The assets of the scheme are held in separate trustee-administered funds.

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

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

4.19 Share-based payments

Equity-settled share-based payment

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.19 Share-based payments *(continued)*

Equity-settled share-based payment *(continued)*

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.20 Impairment of other assets

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

- property, plant and equipment;
- interests in leasehold land held for own use under operating leases;
- prepaid lease payments;
- mining rights;
- other intangible assets; and
- the Company's interests in subsidiaries

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

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

4.21 Capitalisation of borrowing costs

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.22 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

4.23 Research and development costs

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

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

4.24 Provision and contingent liabilities

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.25 Financial guarantee contracts

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

4.26 Share capital

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

4.27 Segment reporting

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.28 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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 the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 4.3. The recoverable amounts of CGU have been determined based on fair value less costs to sell calculations. These calculations require the use of estimates. Details of the estimates used in assessing impairment for goodwill are set out in note 19.

Impairment of other assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of 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. When fair value less costs to sell calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. Details about the estimates used in assessing impairment for property, plant and machinery, land use rights, mining rights and indefinite life intangible assets are set out in notes 16, 18, 20 and 21.

Impairment of receivables

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

Useful lives of property, plant and equipment

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Estimate of fair value of investment properties

As disclosed in note 4.5, the investment properties were revalued at the end of each reporting period by independent professional valuers. Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Provision for reclamation and closure cost

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

6. SEGMENT INFORMATION

The Group determines its operating segments and prepares segment information based on the regular internal financial information reported to the Group's executive directors, being the chief operation decision makers, for their decisions about resources allocation to the Group's business components and review of the performance of those components. The Group has identified the following reportable segments for its operating segments:

PPS Business	Manufacturing and selling of PPS products including PPS resin, PPS fibre and PPS compounds
Mining and thenardite business	Processing and sale of powder thenardite, specialty thenardite and medical thenardite

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments profit that is used by the chief operating decision-makers for assessment of segment performance.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Reportable segment profit excludes loss on early redemption of fixed rate senior notes, equity-settled share-based payments and corporate income and expenses from the Group's profit before income tax. Each of the operating segments is managed separately as the resources requirement of each of them is different.

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

6. SEGMENT INFORMATION *(continued)*

Segment liabilities include trade and other payables, borrowings, loan commitment, convertible bonds and fixed rate senior notes attributable to the manufacturing and sales activities of the individual segments. Certain other payables are managed on a group basis.

Revenue and profit generated by the Group's operating segments are summarised as follows:

	Mining and thenardite business		PPS business		Total	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Total segment revenue	**1,673,427**	2,109,317	**2,932,369**	2,535,475	**4,605,796**	4,644,792
Inter-segment revenue	**(98,321)**	(69,033)	**–**	–	**(98,321)**	(69,033)
Revenue from external customers	**1,575,106**	2,040,284	**2,932,369**	2,535,475	**4,507,475**	4,575,759
Reportable segment profit	**505,115**	863,575	**1,434,874**	1,119,027	**1,939,989**	1,982,602
Interest income	**12,577**	10,570	**4,080**	12,267	**16,657**	22,837
Finance expense	**(78,346)**	(246,741)	**(85,276)**	(176,794)	**(163,622)**	(423,535)
Depreciation and amortisation	**(142,912)**	(123,555)	**(396,678)**	(364,756)	**(539,590)**	(488,311)
Impairment loss on property, plant and equipment	**(318,000)**	–	**–**	–	**(318,000)**	–
Impairment loss on land use rights	**(7,000)**	–	**–**	–	**(7,000)**	–
Impairment loss on a mining right	**(17,000)**	–	**–**	–	**(17,000)**	–
Reversal of impairment/ (Impairment of trade receivables)	**141**	(79,885)	**–**	–	**141**	(79,885)
Write-off of other receivables	**–**	–	**–**	(1,051)	**–**	(1,051)

The following table presents segment assets and liabilities of the Group's operating segments:

	Mining and thenardite business		PPS business		Total	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Reportable segment assets	**5,697,393**	5,564,038	**15,104,149**	13,611,914	**20,801,542**	19,175,952
Additions to non-current segment assets	**199,357**	345,554	**1,297,083**	6,374,044	**1,496,440**	6,719,598
Reportable segment liabilities	**(550,313)**	(2,899,960)	**(5,644,781)**	(3,088,979)	**(6,195,094)**	(5,988,939)

6. SEGMENT INFORMATION *(continued)*

Reconciliation of reportable segment profit, assets and liabilities

	2012 RMB'000	2011 RMB'000
Profit		
Reportable segment profit	**1,939,989**	1,982,602
Equity-settled share-based payment expenses	**(49,784)**	(157,775)
Depreciation	**(2,223)**	(2,496)
Loss on early redemption of fixed rate senior notes	**(131,436)**	–
Corporate income	**14,542**	8,842
Corporate expenses	**(72,658)**	(102,103)
Profit before income tax	**1,698,430**	1,729,070
Assets		
Reportable segment assets	**20,801,542**	19,175,952
Unallocated corporate assets	**56,910**	146,410
Group assets	**20,858,452**	19,322,362
Liabilities		
Reportable segment liabilities	**6,195,094**	5,988,939
Unallocated corporate liabilities	**31,609**	25,760
Group liabilities	**6,226,703**	6,014,699

6. SEGMENT INFORMATION *(continued)*

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

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Local (country of domicile):				
– The PRC, other than Hong Kong	**4,501,561**	4,534,845	**16,202,631**	15,098,548
Hong Kong	**1,661**	–	**4,569**	6,485
Korea	**2,048**	24,688	**–**	–
Others	**2,205**	16,226	**–**	–
	5,914	40,914	**4,569**	6,485
	4,507,475	4,575,759	**16,207,200**	15,105,033

The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the non-current assets is based on the physical location of the asset. Non-current assets include all assets with the exception of pledged deposits as described in note 27.

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

6. SEGMENT INFORMATION *(continued)*

Information about major customers

For the year ended 31 December 2012, there were two customers from the Group's PPS business segment (2011: two customers from the Group's PPS business segment), each of whom contributed 10% or more of the Group's total revenue. Revenue derived from these customers during the year amounted to approximately RMB596,274,000 and RMB536,979,000 individually (2011: RMB542,980,000 and RMB492,779,000).

As at 31 December 2012, approximately RMB85,282,000 and RMB70,818,000 (2011: RMB70,092,000 and RMB65,461,000) were due from these customers.

7. REVENUE

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

	2012	2011
	RMB'000	RMB'000
Revenue from PPS business		
– Coating-grade PPS resin	**200,448**	127,394
– Injection-moulding-grade PPS resin	**228,414**	183,363
– Film-grade PPS resin	**79,778**	63,907
– PPS fibre	**432,618**	408,088
– PPS compounds	**1,991,111**	1,752,175
– Raw materials	**–**	548
	2,932,369	2,535,475
Revenue from mining and thenardite business		
– Powder thenardite	**53,428**	132,412
– Medical thenardite	**871,787**	899,125
– Specialty thenardite	**649,891**	1,008,747
	1,575,106	2,040,284
Total	**4,507,475**	4,575,759

8. OTHER REVENUE AND GAINS

	2012 RMB'000	2011 RMB'000
Bank interest income	**16,780**	22,837
Revenue from sale of scrap materials	**2,316**	2,283
Gain on disposal of property, plant and equipment	**400**	86
Government subsidies*	**1,948**	8,120
Net foreign exchange gain	**46,523**	54,978
Rental income	**8,181**	8,243
Revaluation gain on investment properties	**2,800**	4,300
Others	**2,092**	746
	81,040	101,593

* Government subsidies mainly comprised unconditional subsidies of technical innovation of the Group's business.

9. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest expenses on:		
Bank borrowings wholly repayable within five years	**230,244**	136,161
Bank borrowing not wholly repayable within five years	**20,362**	–
Other borrowings wholly repayable within five years	**27,771**	46,579
Convertible bonds	**190,740**	102,488
Fixed rate senior notes	**187,740**	210,653
Finance income of loan commitment	**(64,108)**	(5,528)
Arrangement fee of bank borrowings	**–**	8,123
	592,749	498,476
Less: Interest capitalised*	**(429,127)**	(74,941)
	163,622	423,535

* The borrowing costs have been capitalised at a rate of approximately 15% per annum for the year ended 31 December 2012 (2011: 13.5%) and included in construction in progress and assets under construction.

10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging and (crediting) the following items:

	2012 RMB'000	2011 RMB'000
Auditor's remuneration	**1,723**	3,734
Amortisation of land use rights (note (i))	**5,496**	4,624
Amortisation of mining rights (note (i))	**14,322**	14,321
Amortisation of other intangible assets (note (i))	**109,093**	104,909
Cost of inventories recognised as an expense	**1,802,991**	1,672,296
Depreciation of property, plant and equipment (note (ii))	**412,902**	366,953
(Reversal of impairment)/impairment of trade receivables	**(141)**	79,885
Write-off of other receivables	**–**	1,051
Write-off of property plant and equipment	**230**	–
Operating lease charges on rented premises	**13,525**	14,842
Outgoings in respect of investment properties	**401**	401
Research expenses	**455**	106
Staff costs (including directors' remuneration)		
– Wages, salaries and bonus	**105,378**	258,340
– Equity-settled share-based payments (note 37)	**49,784**	157,775
– Contribution to defined contribution pension plans	**11,788**	8,661
	166,950	424,776

Notes:

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

(ii) Depreciation of approximately RMB394,603,000 (2011: RMB346,362,000), RMB250,000 (2011: RMB252,000) and RMB18,049,000 (2011: RMB20,339,000) has been charged to cost of sales, selling and distribution expenses and other operating expenses during the year respectively.

11. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
PRC Enterprise Income Tax ("EIT")		
– current year	**462,514**	490,778
– under provision in respect of prior years	**2,574**	–
Deferred tax		
– current year (note 34)	**(111,989)**	(33,973)
Income tax expense	**353,099**	456,805

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any taxation under the jurisdiction of Cayman Islands and BVI during the year (2011: Nil).

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising from or derived in Hong Kong during the year (2011: Nil).

(iii) The subsidiaries established in the PRC are subject to EIT.

(iv) Sichuan Chuanmei Mirabilite Co., Ltd. ("Chuanmei Mirabilite") and Sichuan Chuanmei Special Glauber Salt Co., Ltd. ("Chuanmei Special Glauber"), the subsidiaries of the Company, are subject to EIT tax rate of 25% for the year ended 31 December 2012 (2011: 25%).

(v) Sichuan Deyang Chemical Co., Ltd ("Deyang Chemical"), another subsidiary of the Company, is entitled to preferential tax treatments including two years exemption followed by three years of a 50% tax reduction from 2007. The applicable EIT tax rate for Deyang Chemical for the year ended 31 December 2011 was 12.5%.

Pursuant to the Cai Shui [2011] No.58 jointly issued by the Ministry of Commence, the General Administration of Customers and the State Administration of Taxation on 27 July 2011, Deyang Chemical is entitled to apply for EIT rate of 15% in accordance with the preferential policies for development of China's western regions. Pursuant to a notice issued by the tax authority in charge dated 11 March 2013, Deyang Chemical complies temporarily with the requirements of the tax preferential policies available for enterprises in the western regions. The tax authority in charge agreed that Deyang Chemical is entitled to the preferential tax rate of 15% for the period from 1 January 2012 to 31 December 2012 but its approval is subject to the announcement of Catalogue of Encouraged Type Industries in Western Regions to be issued by the National Development and Reform Commission. Based on the above, the directors of the Company considered that Deyang Chemical is eligible for a reduced 15% EIT rate for the year ended 31 December 2012.

(vi) In 2009, Sichuan Deyang Special New Materials Co., Ltd ("Deyang New Materials"), one of the subsidiaries of the Company, is designated as a high-tech enterprise and is subject to preferential tax rate of 15% for three years commencing 2009. Pursuant to the notices issued by the tax authority in charge on 20 August 2012 and 8 March 2013, the designation as a high-tech enterprise of Deyang New Materials had expired on 15 July 2012 and the applicable EIT tax rate for Deyang New Materials for the period from 1 January to 15 July 2012 was 15% (2011: 15%). Due to the expiry of the designation as a high-tech enterprise, Deyang New Materials also applied for EIT rate of in accordance with the preferential policies for development of the China's western regions. Pursuant to a notice issued by the tax authority in charge dated 8 March 2013, Deyang New Materials is eligible for a reduced 15% EIT rate for the period from 1 July 2012 to 31 December 2012.

11. INCOME TAX EXPENSE *(continued)*

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

	2012	2011
	RMB'000	RMB'000
Profit before income tax	**1,698,430**	1,729,070
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**450,623**	481,654
Effect of tax holidays of the PRC subsidiaries	**(159,622)**	(143,774)
Tax effect of expenses not deductible	**79,946**	149,013
Tax effect of income not taxable	**(20,422)**	(30,088)
Under provision in respect of prior years	**2,574**	–
Income tax expense	**353,099**	456,805

12. PROFIT FOR THE YEAR

Of the consolidated profit attributable to owners of the Company of approximately RMB1,345,331,000 (2011: RMB1,253,286,000), a loss of approximately RMB726,044,000 (2011: RMB620,810,000) has been dealt with in the financial statements of the Company.

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of approximately RMB1,345,331,000 (2011: RMB1,253,286,000) and the weighted average number of 5,593,962,007 (2011: 5,395,844,731) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company, adjusted to reflect the interest on the convertible bonds, where applicable (see below). 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 of the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

13. EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share *(continued)*

Weighted average number of ordinary shares

	2012	2011
	’000	’000
Weighted average number of ordinary shares used in basic earnings per share	**5,593,962**	5,395,845
Effect of share options	**–**	5,926
Effect of convertible bonds	**332,063**	–
Weighted average number of ordinary shares used in diluted earnings per share*	**5,926,025**	5,401,771

Earnings

	2012	2011
	RMB’000	RMB’000
Earnings used in calculating basic earnings per share	**1,345,331**	1,253,286
Interest on convertible bonds	**70,212**	–
Earnings used in calculating diluted earnings per share	**1,415,543**	1,253,286

* The computation of diluted earnings per share does not assume the exercise of the Company’s outstanding share options as the exercise price of those options is higher than the average market price for shares for the year ended 31 December 2012.

For the year ended 31 December 2011, the convertible bonds had an anti-dilutive effect on the basic earnings per share and were ignored in the calculation of diluted earnings per share.

14. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Proposed final dividend of HK7.49 cents per ordinary share (equivalent to approximately RMB6.01 cents per ordinary share) (2011: RMB2.14 cents per ordinary share)	**336,332**	119,709
No interim dividend was declared during the year (2011: RMB3.428 cents per ordinary share)	**–**	193,600
	336,332	313,309

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of share premium and retained profits for the years ended 31 December 2012 and 31 December 2011 respectively. In addition, the final dividend is subject to the shareholders' approval at the forthcoming annual general meeting of the Company.

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments

	Directors' fees RMB'000	Salaries, allowance and bonus RMB'000	Contribution to pension plans RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
2012					
Executive directors					
Mr. Zhang Zhigang	–	512	5	1,363	1,880
Mr. Zhang Daming	–	1,250	11	905	2,166
Mr. Yu Man Chiu Rudolf	–	2,111	11	891	3,013
Mr. Gou Xingwu	–	641	11	671	1,323
Mr. Tan Jianyong	–	605	20	1,041	1,666
Independent non-executive directors					
Mr. Koh Tiong Lu, John	406	–	–	–	406
Mr. Wong Chun Keung	325	–	–	–	325
Mr. Xia Lichuan	203	–	–	–	203
	934	5,119	58	4,871	10,982

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

Directors' emoluments *(continued)*

	Directors' fees RMB'000	Salaries, allowance and bonus RMB'000	Contribution to pension plans RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
2011					
Executive directors					
Mr. Zhang Daming	–	863	10	2,643	3,516
Mr. Yu Man Chiu Rudolf	–	1,079	10	3,201	4,290
Mr. Tan Jianyong (appointed on 1 April 2011)	–	564	20	3,224	3,808
Mr. Gou Xingwu (appointed on 1 April 2011)	–	560	3	1,904	2,467
Mr. Zhang Zhigang (appointed on 1 April 2011)	–	100	5	4,210	4,315
Mr. Li Xudong (resigned on 1 April 2011)	–	–	–	5	5
Non-executive directors					
Mr. Suo Lang Duo Ji (resigned on 1 April 2011)	–	473	5	–	478
Mr. Zhang Songyi (resigned on 1 April 2011)	–	249	2	556	807
Mr. Wang Chun Lin (resigned on 1 April 2011)	–	269	2	–	271
Independent non-executive directors					
Mr. Koh Tiong Lu John	394	–	–	–	394
Mr. Wong Chun Keung	311	–	–	–	311
Mr. Xia Lichuan	187	–	–	–	187
Mr. Gao Zongze (resigned on 1 April 2011)	31	–	–	–	31
	923	4,157	57	15,743	20,880

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

Directors' emoluments *(continued)*

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2011: Nil).

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

The value of share options granted to directors is measured according to the Group's accounting policy for share-based payments set out in note 4.19. Details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading 'share options' in the report of the directors.

Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, four (2011: Nil) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining one (2011: five) individual were as follows:

	2012	2011
	RMB'000	RMB'000
Salaries, allowance and bonus	**1,064**	54,630
Contribution to pension plans	**10**	46
Equity-settled share-based payments	**520**	1,542
	1,594	56,218

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

Five highest paid individuals *(continued)*

Their emoluments fall within the following bands:

Emolument bands	Number of individuals	
HKD	**2012**	2011
1,500,001 to 2,000,000	**1**	–
12,000,001 to 12,500,000	**–**	1
12,500,001 to 13,000,000	**–**	1
13,000,001 to 13,500,000	**–**	2
16,000,001 to 16,500,000	**–**	1
	1	5

The emoluments paid or payable to members of senior management were within the following bands:

Emolument bands	Number of individuals	
HKD	**2012**	2011
Nil to 1,000,000	**3**	–
1,000,001 to 1,500,000	**3**	–
1,500,001 to 2,000,000	**1**	2
2,000,001 to 2,500,000	**–**	1
3,000,001 to 3,500,000	**–**	1
3,500,001 to 4,000,000	**–**	2
4,000,001 to 4,500,000	**–**	1
	7	7

16. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction in progress RMB'000	Assets under construction RMB'000	Buildings and mining structures RMB'000	Furniture, machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 31 December 2010						
At cost	423,022	–	1,374,555	815,451	4,701	2,617,729
Accumulated depreciation	–	–	(56,172)	(139,190)	(3,052)	(198,414)
Net carrying amount	423,022	–	1,318,383	676,261	1,649	2,419,315
Year ended 31 December 2011						
Opening net carrying amount	423,022	–	1,318,383	676,261	1,649	2,419,315
Additions	703,958	1,952,365	23	3,644	2,876	2,662,866
Acquisition through business combination	2,133	–	368,007	2,004,584	4,000	2,378,724
Disposal	–	–	–	(5)	(54)	(59)
Depreciation	–	–	(65,581)	(298,947)	(2,425)	(366,953)
Exchange realignment	–	–	(132)	(239)	(12)	(383)
Reclassifications	(1,112,527)	–	488,979	623,548	–	–
Closing net carrying amount	16,586	1,952,365	2,109,679	3,008,846	6,034	7,093,510
At 31 December 2011						
At cost	16,586	1,952,365	2,231,382	3,406,386	11,071	7,617,790
Accumulated depreciation	–	–	(121,703)	(397,540)	(5,037)	(524,280)
Net carrying amount	16,586	1,952,365	2,109,679	3,008,846	6,034	7,093,510
Year ended 31 December 2012						
Opening net carrying amount	**16,586**	**1,952,365**	**2,109,679**	**3,008,846**	**6,034**	**7,093,510**
Additions	**517,634**	**1,711,765**	**1,882**	**23,040**	**–**	**2,254,321**
Write-off	**(230)**	**–**	**–**	**–**	**–**	**(230)**
Depreciation	**–**	**–**	**(79,276)**	**(331,276)**	**(2,350)**	**(412,902)**
Impairment	**(42,000)**	**–**	**(186,000)**	**(90,000)**	**–**	**(318,000)**
Exchange realignment	**–**	**–**	**(38)**	**(69)**	**(8)**	**(115)**
Reclassifications	**(54,007)**	**–**	**51,698**	**2,309**	**–**	**–**
Closing net carrying amount	**437,983**	**3,664,130**	**1,897,945**	**2,612,850**	**3,676**	**8,616,584**
At 31 December 2012						
At cost	**479,983**	**3,664,130**	**2,284,880**	**3,431,597**	**9,714**	**9,870,304**
Accumulated depreciation and impairment	**(42,000)**	**–**	**(386,935)**	**(818,747)**	**(6,038)**	**(1,253,720)**
Net carrying amount	**437,983**	**3,664,130**	**1,897,945**	**2,612,850**	**3,676**	**8,616,584**

16. PROPERTY, PLANT AND EQUIPMENT – GROUP *(continued)*

Notes:

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

(ii) In view of the competition from specialty thenardite newcomers and downward pressure on the price of specialty thenardite since the 4th quarter of last year, the directors are of the opinion that the sale and production of specialty thenardite will decrease in the foreseeable future and therefore the net carrying amounts of certain property, plant and equipment, the land use rights and the mining right in relation to the mine for the production of specialty thenardite (the "Guangji Mine") exceed the recoverable amounts in the current financial year. The Guangji Mine is subject to impairment review annually. In performing the impairment testing, the directors have determined the recoverable amount of the Guangji Mine using fair value less costs to sell which is derived by using a discounted cash flow ("DCF") analysis. The DCF analysis has used a detailed four-year budget plan and the discount rate applied to the cash flow projection is 13.5%. The growth rate used to extrapolate the cash flow of Guangji Mine beyond the four-year period are zero. Based on the results of the impairment testing, impairment loss on property, plant and equipment, land use rights and a mining right of approximately RMB318,000,000, RMB7,000,000 and RMB17,000,000 respectively, have been recognised in the consolidated statement of comprehensive income.

Other key assumptions used in the calculation of fair value less costs to sell of the Guangji Mine are as follows:

- The estimated production volumes were based on the mine plan agreed by the directors which took into account continual development on the mining structure for Guangji Mine. Based on the mine plan, revenue from selling of specialty thenardite was attributable to the sales in the PRC.

- The sales price of specialty thenardite was determined with reference to the market available information and the recent sales transactions in 2013.

- The Group was able to renew and apply for extension for its land use rights and mining right.

(iii) As at reporting date, certain buildings and mining structures, machinery and equipment are pledged to secure bank borrowings granted to the Group as disclosed in note 33.

(iv) During the year ended 31 December 2011, the Group entered into a sale agreement with a third party to dispose of certain of its machinery, for a consideration of RMB80,000,000. Upon the disposal, the Group further entered into a lease with this third party to acquire the use of the disposed machinery. The lease covers a period of 2 years with total lease payments payable to the third party of approximately RMB91,943,000. At the end of the lease, the machinery will be transferred to the Group with no consideration.

Since the above arrangement did not constitute a transfer of the economic benefit of the usage of the underlying machinery, but represented a financing activity in the way of instalment loans which are secured by the Group's assets, such arrangements are treated as loan financing with the total lease payment over the consideration for disposal treated as finance costs and charged to the consolidated statement of comprehensive income. As such, the machinery was not derecognised from the books and records of the Group, with the present value of the total lease payment treated as a secured loan and included in borrowings in the consolidated statement of financial position.

(v) As at 31 December 2012, the Group had paid a security deposit of RMB4,000,000 (2011: RMB4,000,000), for the arrangement, which is to be off-set against the last payment of the lease in accordance with the terms of the lease. The amount has been recognised as a pledge deposit and included in current assets (note 27) as at 31 December 2012 (2011: included in non-current assets).

As at 31 December 2012, the carrying amount of the above loan amounted to approximately RMB39,307,000 (2011: RMB76,085,000) which is included in borrowings of the Group (note 30) and secured by certain machinery with carrying amount of approximately RMB78,825,000 (2011: RMB91,381,000).

17. INVESTMENT PROPERTIES – GROUP

	2012 RMB'000	2011 RMB'000
FAIR VALUE		
At 1 January	**101,900**	–
Acquisition through business combination	**–**	97,600
Change in fair value recognised in profit or loss	**2,800**	4,300
At 31 December	**104,700**	101,900

Investment properties represent buildings and land use rights located in the PRC. The land use rights were acquired with the lease period of 50 years. At 31 December 2012, the land use rights had remaining lease period of 44 years.

The Group's investment properties were revalued at the reporting date by independent professionally qualified valuers, BMI Appraisal Limited, on an open market basis. Fair values were determined by reference to comparable market transactions.

The investment properties are held for generating rental income under operating lease arrangements, further details of which are included in note 38.

18. LAND USE RIGHTS – GROUP

	2012 RMB'000	2011 RMB'000
Net carrying amount at 1 January	**285,927**	82,582
Additions	**1,714**	43,669
Acquisition through business combination	**–**	164,300
Impairment	**(7,000)**	–
Amortisation charge	**(5,496)**	(4,624)
Net carrying amount at 31 December	**275,145**	285,927

Notes:

(i) The Group's interests in land use rights represent prepaid operating lease payments in respect of land located in the PRC. The land use rights were acquired with the lease period from 43 years to 70 years and are amortised over their lease periods. As at 31 December 2012, the land use rights have remaining lease periods from 30 years to 65 years.

(ii) As described in note 16 (ii), an impairment loss on the land use rights of Guangji Mine was recognised during the year.

(iii) As at 31 December 2012, the Group's land use rights with carrying amount of approximately RMB68,451,000 (2011: RMB75,587,000) were pledged to secure bank borrowings granted to the Group (note 33).

19. GOODWILL – GROUP

	2012 RMB'000	2011 RMB'000
Acquisition of Chuanmei Mirabilite – Thenardite products CGU	**8,386**	8,386
Acquisition through business combination – PPS products CGU	**5,737,139**	5,737,139
Net carrying amount	**5,745,525**	5,745,525

Note:

Goodwill arose from the acquisition of Chuanmei Mirabilite in 2004 and the acquisition of Sino Polymer New Materials Co., Ltd. ("Sino Polymer") in 2011.

Impairment testing of goodwill

Goodwill acquired has been allocated to the following cash-generating units for impairment testing:

Thenardite products CGU; and
PPS products CGU

Their recoverable amounts were determined based on a fair value less costs to sell calculation, covering a detailed five-year budget plan approved by senior management. The discount rate applied to the cash flow projections of thenardite products and PPS products are 13.50% and 13.25% respectively (2011: 14.50%). The growth rates used to extrapolate the cash flow of thenardite products and PPS products beyond the four-year period are zero (2011: 2%) and 2% (2011: 2%) respectively. The growth rates do not exceed the projected long-term average growth rates for thenardite and PPS industry in the PRC. Based on the results of the impairment testing, management determines that there is no impairment of the CGUs of processing and sale of powder and medical thenardite and the CGU of manufacturing and selling of PPS products attributed to the goodwill.

Key assumptions were used for fair value less costs to sell calculation of the thenardite and PPS products CGUs. The following described each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

Apart from the considerations described above in determining the fair value less costs to sell of the CGUs above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

20. MINING RIGHTS – GROUP

	RMB'000
At 1 January 2011	
Cost	411,693
Accumulated amortisation	(30,976)
Net book value	380,717
Year ended 31 December 2011	
Opening net carrying amount	380,717
Amortisation charge	(14,321)
Closing net carrying amount	366,396
At 31 December 2011	
Cost	411,693
Accumulated amortisation	(45,297)
Net book value	366,396
Year ended 31 December 2012	
Opening net carrying amount	366,396
Amortisation charge	(14,322)
Impairment	(17,000)
Closing net carrying amount	335,074
At 31 December 2012	
Cost	411,693
Accumulated amortisation and impairment	(76,619)
Net book value	335,074

Notes:

(i) The mining rights are amortised over their estimated useful life from 3.5 to 30 years.

(ii) Details of the Group's mining rights pledged to secure the Group's bank borrowings as at reporting date are set out in note 33.

(iii) As described in note 16(ii), an impairment loss on the mining right of Guangji Mine was recognised during the year.

21. OTHER INTANGIBLE ASSETS – GROUP

	Trademark (note (a)) RMB'000	Patents and technical know-how (note (b)) RMB'000	Customer relationship (note (b)) RMB'000	Total RMB'000
Cost				
At 1 January 2011	17,588	–	–	17,588
Acquisition through business combination	–	826,600	391,400	1,218,000
At 31 December 2011, at 1 January 2012 and at 31 December 2012	17,588	826,600	391,400	1,235,588
Amortisation				
At 1 January 2011	–	–	–	–
Amortisation charge	–	(48,451)	(56,458)	(104,909)
At 31 December 2011 and at 1 January 2012	–	(48,451)	(56,458)	(104,909)
Amortisation charge	–	(50,383)	(58,710)	(109,093)
At 31 December 2012	–	(98,834)	(115,168)	(214,002)
Net carrying amount				
At 31 December 2012	17,588	727,766	276,232	1,021,586
At 31 December 2011	17,588	778,149	334,942	1,130,679

21. OTHER INTANGIBLE ASSETS – GROUP *(continued)*

Notes:

(a) Trademark as at 31 December 2012 arose from the acquisition of Chuanmei Mirabilite in 2004. The Group assessed the useful life and economic life of the trademark and concluded that the trademark have no foreseeable limit to the period which it is expected to generate net cash inflow for the Group and regarded the trading right as having indefinite useful life.

The carrying amount of the trademark with indefinite useful life at each reporting date is tested for impairment by the management by estimating its recoverable amount based on the fair value less costs to sell calculations. The calculations use cash flow projection based on the financial budgets approved by the management covering a period up to 2016. The discount rate applied to the cash flow projections was 13.50% (2011: 14.50%). The growth rate used to extrapolate the cash flow beyond the four-year period is zero (2011: 2%). The growth rate does not exceed the projected long-term average growth rate for thenardite industry in the PRC.

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

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

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

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

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

(b) Purchased patents and technical know-how and customer relationship in the acquisition of Sino Polymer, fair values at acquisition of which were determined by reference to the independent valuation, are amortised on the straight-line basis over their estimated useful lives of 6.67 to 15 years.

22. DEPOSITS AND PREPAYMENTS – GROUP

	2012	2011
	RMB'000	RMB'000
Deposits paid for:		
Property, plant and equipment	**17,528**	370,634
Others	**5,558**	10,462
	23,086	381,096

23. INTERESTS IN SUBSIDIARIES – COMPANY

	2012 RMB'000	2011 RMB'000
Investment in subsidiaries	**10,000,687**	10,000,687
Amounts due from subsidiaries	**612,745**	612,745
	10,613,432	10,613,432

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

As at reporting date, the Company's interests in certain subsidiaries have been pledged as securities for the USD bank borrowing of the Company (note 30).

As at 31 December 2011, the Company's interests in certain subsidiaries have been pledged as securities for the Company's issued fixed rate senior notes as disclosed in note 31.

As at 31 December 2012, the particulars of the principal subsidiaries in which the Company has direct or indirect interests are set out as follows:

Name	Country/Place of incorporation/ establishment and type of legal entity	Particulars of issued and fully paid share capital/ registered capital	Effective interest held by the Company	Principal activities
Interests held directly				
Rich Light International Limited	Incorporated in the BVI, limited liability company	USD100	100%	Investment holding
Sino Polymer New Materials Co., Ltd	Incorporated in the Cayman Islands, limited liability company	USD100,000,000	100%	Investment holding

23. INTERESTS IN SUBSIDIARIES – COMPANY *(continued)*

Name	Country/Place of incorporation/ establishment and type of legal entity	Particulars of issued and fully paid share capital/ registered capital	Effective interest held by the Company	Principal activities
Interests held indirectly				
Top Promise Resources Limited	Incorporated in Hong Kong, limited liability company	HKD1.0	100%	Investment holding
Sichuan Chuanmei Mirabilite Co., Ltd. 四川省川眉芒硝有限責任公司	Established in the PRC, foreign investment enterprise	RMB142,077,000	100%	Processing and sale of powder thenardite and medical thenardite
Sichuan Chuanmei Special Glauber Salt Co., Ltd. 四川川眉特種芒硝有限公司	Established in the PRC, wholly foreign-owned enterprise	USD75,000,000	100%	Processing and sale of specialty thenardite
Haton Polymer & Fibre Limited	Incorporated in the BVI, limited liability company	USD0.1	100%	Investment holding
Haton Polymer Limited	Incorporated in Hong Kong, limited liability company	HKD1.0	100%	Investment holding
Sichuan Deyang Chemical Co., Ltd. 四川得陽化學有限公司	Established in the PRC, foreign-owned enterprise	RMB190,000,000	100%	Manufacturing and selling of PPS resin including coating resin, injection resin, fibre resin and PPS compounds
Sichuan Deyang Special New Materials Co., Ltd. 四川得陽特種新材料有限公司	Established in the PRC, foreign-owned enterprise	USD104,000,000	100%	Manufacturing and selling of PPS resin including coating resin, injection resin, fibre resin, film-grade resin, PPS fibre and PPS compounds
Sichuan Deyang Engineering Plastic Development Co., Ltd. 四川得陽工程塑料開發有限公司	Established in the PRC, foreign-owned enterprise	RMB1,000,000	100%	Engineering plastics development and technology consulting services

The financial statements of the above subsidiaries were audited by BDO Limited for the purpose of the Group consolidation.

24. INVENTORIES – GROUP

	2012 RMB'000	2011 RMB'000
Raw materials	**17,805**	15,776
Work-in-progress	**17,374**	7,696
Finished goods	**38,338**	43,844
	73,517	67,316

25. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Trade receivables	**1,196,172**	1,062,303	**–**	–
Less: provision for impairment	**(88,890)**	(89,031)	**–**	–
Trade receivables, net	**1,107,282**	973,272	**–**	–
Bills receivables	**403**	2,787	**–**	–
	1,107,685	976,059	**–**	–
Other receivables	**22,597**	282,087	**–**	5,127
Deposits and prepayments	**149,021**	103,873	**27,263**	438
	1,279,303	1,362,019	**27,263**	5,565

Trade receivables are non-interest bearing. Credit terms normally granted to the trade customers ranged from 60 days to 180 days (2011: 45 days to 180 days) depending on the customers' relationship with the Group, its creditworthiness and settlement record. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancement over its trade receivable balances.

25. TRADE AND OTHER RECEIVABLES *(continued)*

Ageing analysis of trade and bills receivables, based on the invoice dates and net of provision, is as follows:

	2012 **RMB'000**	2011 RMB'000
90 days or below	**781,466**	715,918
91 – 180 days	**213,258**	248,397
181 – 365 days	**105,229**	6,498
Over 365 days	**7,732**	5,246
	1,107,685	976,059

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

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

	2012 **RMB'000**	2011 RMB'000
At 1 January	**89,031**	9,146
(Reversal of impairment loss)/Impairment loss recognised	**(141)**	79,885
At 31 December	**88,890**	89,031

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

25. TRADE AND OTHER RECEIVABLES *(continued)*

The individually impaired receivables mainly relate to management assessment that the entire amount of the receivable balances is unlikely to be recovered. The ageing analysis of trade receivables which were impaired and were provided for is as follows:

	2012 RMB'000	2011 RMB'000
180 – 365 days	–	79,885
Over 365 days	88,890	9,146
	88,890	89,031

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

	2012 RMB'000	2011 RMB'000
1 – 90 days past due	140,782	241,356
91 – 180 days past due	1,966	8,821
181 – 365 days past due	1,462	3,790
Over 365 days past due	8,008	1,577
	152,218	255,544

Trade and bills receivables of approximately RMB955,467,000 (2011: RMB720,515,000) that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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

26. LOANS TO SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES – COMPANY

The loans to subsidiaries are unsecured, bearing nil to 6% of interest per annum and repayable on demand. The amounts due to subsidiaries are unsecured, interest free and repayable on demand. The directors considered that the carrying amounts of the balances approximate to their fair values.

27. PLEDGED DEPOSITS

As at 31 December 2012, pledged deposits were denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
– RMB (note (i))	**34,000**	34,000	**–**	–
– HKD (note (ii))	**–**	46,990	**–**	46,990
– USD (note (iii))	**–**	75,578	**–**	75,578
	34,000	156,568	**–**	122,568

Notes:

(i) Bank deposits of the Group amounted to RMB30,000,000 (2011: Other deposits of RMB30,000,000) denominated in RMB have been pledged to secure RMB bank loans (note 30) at the reporting date. It will be released upon the settlement of the relevant bank borrowings. The remaining balance of deposits amounted to RMB4,000,000 (2011: RMB4,000,000) denominated in RMB was pledged to secure the sale and leaseback arrangement as disclosed in notes 16 and 30.

(ii) As at 31 December 2011, bank deposits of the Group and the Company amounted to RMB46,990,000 denominated in HKD had been pledged to secure USD bank loans (note 30).

(iii) As at 31 December 2011, bank deposits of the Group and the Company amounted to RMB75,578,000 denominated in USD had been pledged to secure RMB bank loans (note 30).

27. PLEDGED DEPOSITS *(continued)*

The maturity profile of the above pledge deposits is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
In the second year	**–**	4,000	**–**	–
Current				
Within one year	**34,000**	152,568	**–**	122,568
	34,000	156,568	**–**	122,568

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

28. CASH AND BANK BALANCES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**2,896,530**	2,459,332	**21,231**	132,169
Short-term bank deposits	**397,902**	294,662	**–**	–
Less: Pledged bank deposits	**(30,000)**	(122,568)	**–**	(122,568)
Cash and bank balances as stated in the statement of financial position	**3,264,432**	2,631,426	**21,231**	9,601

Cash deposited with banks bear interest at effective interest rates ranging from 0.01% to 3.05% (2011: 0.01% to 2.50%) per annum.

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

28. CASH AND BANK BALANCES *(continued)*

The Group had short-term bank deposits and cash at bank and in hand denominated in RMB amounting to approximately RMB3,269,452,000 as at 31 December 2012 (2011: RMB2,619,647,000), which were deposited with the banks in the PRC. RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

29. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Trade payables	**110,140**	120,608	**–**	–
Bills payables	**38,150**	30,430	**–**	–
	148,290	151,038	**–**	–
Other payables	**653,976**	458,365	**96,432**	70,048
Receipts in advance	**34,754**	48,120	**–**	–
	837,020	657,523	**96,432**	70,048

29. TRADE AND OTHER PAYABLES *(continued)*

Ageing analysis of trade and bills payables, based on the invoice dates, is as follows:

	2012 RMB'000	2011 RMB'000
Outstanding balances with ages:		
– 90 days or below	**87,431**	75,070
– 91 – 180 days	**16,351**	25,788
– 181 – 365 days	**7,037**	9,432
– Over 365 days	**37,471**	40,748
	148,290	151,038

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

30. BORROWINGS

As at 31 December 2012, the Group's and the Company's borrowings were repayable as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Current				
Within one year	**1,247,042**	1,737,528	**784,035**	603,784
Non-current				
In the second to fifth years	**1,971,398**	695,823	**1,725,481**	453,352
Over five years	**741,496**	–	**741,496**	–
	2,712,894	695,823	**2,466,977**	453,352
	3,959,936	2,433,351	**3,251,012**	1,057,136

The Group's secured borrowings amounted to approximately RMB2,968,812,000 as at 31 December 2012 (2011: RMB2,049,919,000), consisting of bank loans of approximately RMB2,929,505,000 (2011: RMB1,973,834,000) and sale and leaseback borrowing (note 16) of approximately RM39,307,000 (2011: RMB76,085,000). Secured RMB borrowings (including bank loans and sale and lease back borrowing) of approximately RMB463,807,000 (2011: RMB992,783,000) are collateralised by pledging of certain buildings, machinery and equipment and other assets of the Group as set out in note 33.

30. BORROWINGS *(continued)*

The Group's unsecured borrowings amounted to approximately RMB991,124,000 as at 31 December 2012 (2011: RMB383,432,000), consisting of bank loans of approximately RMB790,707,000 (2011: Nil) and other loan from a third party of approximately RMB200,417,000 (2011: RMB383,432,000).

The Company's secured and unsecured borrowings consisted solely of bank loans, which amounted to approximately RMB2,505,005,000 as at 31 December 2012 (2011: RMB1,057,136,000) and RMB746,007,000 as at 31 December 2012 (2011: Nil).

The Group and the Company's USD bank loan amounted to RMB2,505,005,000 as at 31 December 2012 and is secured by the Company's interests in certain PRC subsidiaries.

The Group and the Company's USD bank loans of RMB1,057,136,000 as at 31 December 2011 was guaranteed by certain subsidiaries of the Company and are collateralised by pledged deposits denominated in HKD (note 27 (ii)).

The Group's borrowings of approximately RMB3,451,429,000 (2011: RMB1,440,568,000) and RMB508,507,000 (2011: RMB992,783,000) are denominated in USD and RMB respectively, while all of the Company's borrowings are denominated in USD.

The following table details the interest rate profile of the Group and the Company's borrowing at the end of the reporting period.

	2012		2011	
	Interest rate	**RMB'000**	Interest rate	RMB'000
Group				
– at fixed rates	**6.04% to 12%**	**1,152,424**	12%	383,432
– at floating rates	**5.65% to 8.86%**	**2,807,512**	6.06% to 11.83%	2,049,919
		3,959,936		2,433,351
Company				
– at fixed rates	**12%**	**746,007**	–	–
– at floating rates	**5.65%**	**2,505,005**	7.26% to 11.83%	1,057,136
		3,251,012		1,057,136

31. FIXED RATE SENIOR NOTES

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

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

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

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

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

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

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

31. FIXED RATE SENIOR NOTES *(continued)*

On 28 October 2012, the board of directors of the Company announced that the Company would redeem all outstanding Notes at a redemption price equal to 106% of principal amount of the Notes plus accrued and unpaid interest, if any, up to the date of redemption.

On 30 November 2012, the Company redeemed the Notes, in whole, at a redemption price equal to USD265,000,000 (equivalent to approximately RMB1,653,509,000). A loss on redemption of RMB131,436,000 was recognised in the consolidated statement of comprehensive income for the year. Subsequent to the redemption, the Notes were cancelled. The Notes were delisted from the official list of the Singapore Exchange Securities Trading Limited. The details of the redemption are set out in the announcements of the Company date 28 October 2012 and 30 November 2012.

The movement of the Notes is set out as follows:

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Carrying amount as at 1 January	**1,537,511**	1,588,669
Interest expenses (note 9)	**187,740**	210,653
Interest paid	**(171,847)**	(194,267)
Exchange realignment	**(31,331)**	(67,544)
Early redemption	**(1,522,073)**	–
Carrying amount as at 31 December	**–**	1,537,511
Fair value of the Notes as at 31 December*	**–**	1,395,101

* The fair value as at 31 December 2011 was determined by reference to the closing price of the Notes published by a leading global financial market data provider as at that date.

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

32. CONVERTIBLE BONDS AND LOAN COMMITMENT

On 7 April 2011, the Company entered into a subscription agreement (the "Subscription Agreement") with Stable Investment Corporation ("SIC"), a wholly-owned subsidiary of China Investment Corporation and CITIC Capital China Access Fund Limited ("CITIC Capital"). Pursuant to the Subscription Agreement, SIC and CITIC Capital agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of USD120,000,000 (equivalent to approximately RMB779,229,000) at 6% interest rate per annum (the "Convertible Bonds") with maturity on 12 May 2014 (the "Maturity Date"). In addition, the Company has granted SIC and CITIC Capital an option to subscribe for the additional convertible bonds in an aggregate principal amount of up to USD100,000,000 (the "Additional Convertible Bonds"), exercisable during the period commencing on the date of completion of the subscription for the Convertible Bonds and ending on the first anniversary of such date. The terms and conditions of the Additional Convertible Bonds will be the same as the terms and conditions of the Convertible Bonds as set out in the Subscription Agreement in all respect except for (i) the conversion price and (ii) the first payment of interest.

Interest of the Convertible Bonds is repayable quarterly in arrear on 31 March, 30 June, 30 September and 31 December commencing on 30 September 2011.

The Convertible Bonds are convertible at any time from and including the date falling 6 months from 13 May 2011 up to the close of business in Hong Kong on the day falling 7 days prior to the Maturity Date by the bondholders into ordinary share of the Company of USD0.00001 each at the option of the bondholders, at an initial conversion price of HKD2.81 per share (subject to adjustments as set out in the Subscription Agreement) and a fixed exchange rate of USD1.00 to HKD7.77581.

Assuming full conversion of the Convertible Bonds at the initial conversion price of HKD2.81, the Convertible Bonds will be convertible into approximately 332,063,060 ordinary shares of the Company. Those shares shall rank pari passu in all respects with all other existing shares outstanding at the date of the conversion.

The conversion price is subject to adjustment for consolidation, subdivision or reclassification, capitalisation of profit or reserves, distribution, right issues, issues at less than current market price; other issues of securities at less than current market price; modification of rights of conversion and other offers to the shareholders.

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Convertible Bonds at 148.15% of its principal amount together with accrued and unpaid interest on the Maturity Date.

Upon the occurrence of the events of default as set out in the Subscription Agreement or in the event that the Company's shares cease to be listed or admitted to trading on the Stock Exchange, each bondholder shall have the right to require the Company to redeem all or some of that bondholder's Convertible Bonds at an amount equal to 100% of the principal amount of the Convertible Bonds plus a gross compound yield of 20% per annum, calculated on a yearly basis.

32. CONVERTIBLE BONDS AND LOAN COMMITMENT *(continued)*

Further details regarding the issue of the Convertible Bonds have been set out in the announcements of the Company dated 7 April 2011 and 13 May 2011. The transaction of the Convertible Bonds was completed on 13 May 2011.

The total proceeds received have been allocated between the Convertible Bonds and the loan commitment based on their relative fair values. The Convertible Bonds contain liability and equity components.

The fair value of the loan commitment is calculated using the Black Scholes Options Pricing model. The fair value of the liability component of the Convertible Bonds is determined using the prevailing market interest of similar non-convertible debts. The difference between the fair value of the Convertible Bonds and the fair value assigned to the liability component, representing the option for conversion of the convertible notes into equity, is included in equity as convertible bonds equity reserve. The effective interest rate of the liability component is 25.97%.

The movement of the liability and equity components of the Convertible Bonds, and the loan commitment is set out as below:

	Group and Company		
	Liability component	**Loan commitment**	**Equity component**
	RMB'000	RMB'000	RMB'000
Fair value on initial recognition	667,079	72,440	39,711
Direct transaction costs	(7,649)	(831)	(456)
	659,430	71,609	39,255
Interest expenses (note 9)	102,488	–	–
Interest paid	(24,475)	–	–
Recognised in profit or loss (note 9)	–	(5,528)	–
Exchange realignment	(13,774)	(1,303)	–
Carrying amount as at 31 December 2011 and 1 January 2012	723,669	64,778	39,255

32. CONVERTIBLE BONDS AND LOAN COMMITMENT *(continued)*

	Group and Company		
	Liability component	**Loan commitment**	**Equity component**
	RMB'000	RMB'000	RMB'000
Interest expenses (note 9)	190,740	–	–
Interest paid	(45,602)	–	–
Recognised in profit or loss (note 9)	–	(64,108)	–
Exchange realignment	(19,154)	(670)	–
Carrying amount as at 31 December 2012	849,653	–	39,255

Analysed for reporting purposes as:

	Group and Company		
	Liability component	**Loan commitment**	**Equity component**
	RMB'000	RMB'000	RMB'000
As at 31 December 2012			
Convertible bonds included in non-current liabilities	**849,653**	**–**	**–**
Equity component included in convertible bonds equity reserve	**–**	**–**	**39,255**
	849,653	**–**	**39,255**
As at 31 December 2011			
Loan commitment included in current liabilities	–	64,778	–
Convertible bonds included in non-current liabilities	723,669	–	–
Equity component included in convertible bonds equity reserve	–	–	39,255
	723,669	64,778	39,255

33. PLEDGE OF ASSETS

At 31 December 2012, the Group and the Company had pledged certain buildings, machinery and equipment and other assets to secure the credit facilities granted by certain banks. The carrying values of these assets pledged at the reporting date are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Buildings and mining structures (note 16)	**15,771**	24,621	**–**	–
Machinery and equipment (note 16)	**446,610**	506,365	**–**	–
Land use rights (note 18)	**68,451**	75,587	**–**	–
Mining rights (note 20)	**273,116**	287,824	**–**	–
Pledged deposits (note 27)	**34,000**	156,568	**–**	122,568
	837,948	1,050,965	**–**	122,568

34. DEFERRED TAX ASSETS/LIABILITIES – GROUP

	2012	2011
	RMB'000	RMB'000
Deferred tax liabilities	**386,058**	412,547
Deferred tax assets	**(85,500)**	–
	300,558	412,547

34. DEFERRED TAX ASSETS/LIABILITIES – GROUP *(continued)*

The movement of the major deferred tax liabilities and assets recognised during the current and prior years are as follows:

		Fair value adjustments on					Impairment on			
	Withholding tax on the unremitted earning RMB'000	Property, plant and equipment RMB'000	Land use rights RMB'000	Other intangible assets RMB'000	Revaluation of investment properties RMB'000	Interest capitalisation RMB'000	Property, plant and machinery RMB'000	Mining right RMB'000	Land use rights RMB'000	Total RMB'000
At 1 January 2011	30,616	–	–	–	–	–	–	–	–	30,616
Arising from business combination	–	108,893	11,116	286,788	9,107	–	–	–	–	415,904
(Credited)/Charged to profit or loss	–	(10,334)	(214)	(26,227)	1,075	1,727	–	–	–	(33,973)
At 31 December 2011 and 1 January 2012	30,616	98,559	10,902	260,561	10,182	1,727	–	–	–	412,547
(Credited)/Charged to profit or loss	–	(10,746)	(222)	(27,274)	700	11,053	(79,500)	(4,250)	(1,750)	(111,989)
At 31 December 2012	30,616	87,813	10,680	233,287	10,882	12,780	(79,500)	(4,250)	(1,750)	300,558

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate is enjoyed by the Group because there is a tax treaty 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 dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated for the year ended 31 December 2012.

As at 31 December 2012, deferred tax liabilities of approximately RMB30,616,000 (2011: RMB30,616,000) were recognised in respect of the unremitted earnings of the PRC subsidiaries. The aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognised are approximately RMB4,088,713,000 (2011: RMB2,206,853,000). No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these PRC subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

At the reporting date, the Group's unused tax loss available for offset against future profits, not recognised as deferred tax assets, is approximately RMB82,696,000 (equivalent to approximately HKD103,087,000)) (2011: RMB84,459,000 (equivalent to approximately HKD103,087,000)). No deferred tax asset has been recognised in respect of this tax loss due to unpredictability of future profit streams. Under the current tax legislation in Hong Kong, the tax loss may be carried forward indefinitely.

35. SHARE CAPITAL

	Number of ordinary shares	Nominal value	
		USD	RMB'000
Authorised:			
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	10,000,000,000	100,000	718
Issued and fully paid:			
At 1 January 2011	1,981,722,664	19,818	145
Issue of placing and subscription shares (note (i))	340,000,000	3,400	23
Issue of consideration shares for acquisition of subsidiaries (note (ii))	3,277,552,343	32,776	216
Exercise of share options – proceeds from shares issued	48,595,000	486	3
Repurchase and cancellation of shares (note (iii))	(53,908,000)	(539)	(4)
At 31 December 2011, 1 January 2012 and 31 December 2012	5,593,962,007	55,941	383

Notes:

(i) On 25 January 2011, Nice Ace Technology Limited ("Nice Ace") entered into a placing and subscription agreement (the "Placing and Subscription Agreement") with BOCI Asia Limited, BOCOM International Securities Limited and Morgan Stanley & Co. International PLC (the "Joint Placing Agents") and the Company. Pursuant to the Placing and Subscription Agreement, Nice Ace agreed to place, through the Joint Placing Agents, 340,000,000 existing shares of the Company (the "Shares") to not less than six placees, at a price of HKD2.81 per Share and Nice Ace conditionally agreed to subscribe for such number of Shares as is equal to the number of Shares sold by Nice Ace at a price of HKD2.81 per Share.

On 7 February 2011, the said placing and the subscription was completed and the Company received net proceeds of approximately HKD955,400,000 (equivalent to RMB808,269,000) from the subscription. Part of the proceeds amounting to approximately RMB23,000 was recorded as share capital, the remaining proceeds of approximately RMB808,246,000 was recorded in the share premium account.

(ii) During the year ended 31 December 2011, the Company issued 3,277,552,343 consideration shares in aggregate as part of the consideration for the acquisition of the equity interests in Sino Polymer. The fair value of the consideration shares, determined based on the closing market price of the Company on the acquisition dates of HKD3.22 per share and HKD2.91 per share, amounted to approximately HKD10,072,300,000 (equivalent to approximately RMB8,550,339,000) and HKD435,071,000 (equivalent to approximately RMB361,675,000), respectively. The issue of the consideration shares has resulted in the increase in share capital and share premium account of the Company by approximately RMB216,000 and RMB8,911,798,000, respectively.

(iii) During the year ended 31 December 2011, the Company repurchased a total of 53,908,000 ordinary shares of USD0.00001 each in the capital of the Company at an aggregate price of approximately HKD65,565,000 (equivalent to RMB54,432,000). The repurchased shares were fully cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

36. RESERVES

(a) Company

Details of the Company's reserves are as follows:

	Share premium RMB'000	Capital redemption reserve RMB'000	Employee share-based compensation reserve RMB'000	Capital contribution RMB'000	Translation reserve RMB'000	Contributed surplus* RMB'000	Convertible bonds equity reserve RMB'000	Dividend reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	762,890	1	33,242	103,539	8,032	85,142	-	93,000	(548,151)	537,695
Exercise of share options	139,712	-	(16,319)	-	-	-	-	-	-	123,393
Issue of convertible bonds (note 32)	-	-	-	-	-	-	39,255	-	-	39,255
Recognition of share-based payments	-	-	157,775	-	-	-	-	-	-	157,775
Issue of ordinary shares (note 35 (i))	808,246	-	-	-	-	-	-	-	-	808,246
Acquisition of subsidiaries (note 35 (ii))	8,911,798	-	-	-	-	-	-	-	-	8,911,798
Expenses of share issues	(50,211)	-	-	-	-	-	-	-	-	(50,211)
Repurchase and cancellation of shares (note 35 (iii))	(54,428)	4	-	-	-	-	-	-	(4)	(54,428)
Dividend paid for 2010	-	-	-	-	-	-	-	(93,000)	-	(93,000)
Interim dividend paid (note 14)	-	-	-	-	-	-	-	-	(193,600)	(193,600)
Proposed final dividend (note 14)	-	-	-	-	-	-	-	119,709	(119,709)	-
Transactions with owners	9,755,117	4	141,456	-	-	-	39,255	26,709	(313,313)	9,649,228
Loss for the year	-	-	-	-	-	-	-	-	(620,810)	(620,810)
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	24,679	-	-	-	-	24,679
Lapse of share options	-	-	(9,336)	-	-	-	-	-	9,336	-
At 31 December 2011	10,518,007	5	165,362	103,539	32,711	85,142	39,255	119,709	(1,472,938)	9,590,792

36. RESERVES *(continued)*

(a) Company *(continued)*

Details of the Company's reserves are as follows:

	Share premium RMB'000	Capital redemption reserve RMB'000	Employee share-based compensation reserve RMB'000	Capital contribution RMB'000	Translation reserve RMB'000	Contributed surplus* RMB'000	Convertible bonds equity reserve RMB'000	Dividend reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2011 and 1 January 2012	10,518,007	5	165,362	103,539	32,711	85,142	39,255	119,709	(1,472,938)	9,590,792
Recognition of share-based payments	-	-	49,784	-	-	-	-	-	-	49,784
Dividend paid for 2011	-	-	-	-	-	-	-	(119,709)	-	(119,709)
Proposed final dividend (note 14)	(336,332)	-	-	-	-	-	-	336,332	-	-
Transactions with owners	(336,332)	-	49,784	-	-	-	-	216,623	-	(69,925)
Loss for the year	-	-	-	-	-	-	-	-	(726,044)	(726,044)
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	29,585	-	-	-	-	29,585
Lapse of share options	-	-	(18,598)	-	-	-	-	-	18,598	-
At 31 December 2012	10,181,675	5	196,548	103,539	62,296	85,142	39,255	336,332	(2,180,384)	8,824,408

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

36. RESERVES *(continued)*

(b) Group

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

Employee share-based compensation reserve

Employee share-based compensation reserve is comprised of the fair value of the actual or estimated number of unvested share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based employee compensation set out in note 4.19.

General reserve

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

Capital contribution

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

36. RESERVES *(continued)*

(b) Group *(continued)*

Statutory reserves

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

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

37. SHARE-BASED EMPLOYEE COMPENSATION

(i) Pre-IPO share option scheme

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

37. SHARE-BASED EMPLOYEE COMPENSATION *(continued)*

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

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

	2012		2011	
	Number	**Weighted average exercise price HKD**	Number	Weighted average exercise price HKD
Outstanding at 1 January	**24,868,002**	**2**	31,822,002	2
Forfeited	**–**	**–**	(1,498,000)	2
Exercised	**–**	**–**	(5,456,000)	2
Expired	**–**	**–**	–	–
Outstanding at 31 December	**24,868,002**	**2**	24,868,002	2
Exercisable at 31 December	**24,868,002**	**2**	14,545,003	2

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

No share option was exercised during the year. The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2011 was HKD3.04.

The options outstanding at 31 December 2012 had exercise prices of HKD2.00 (2011: HKD2.00) and a weighted average remaining contractual life of 3.46 years (2011: 4.46 years).

37. SHARE-BASED EMPLOYEE COMPENSATION *(continued)*

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

The fair value of the options is determined using the Binomial Option Pricing Model that takes into account factors specific to the share incentive plans. The following table lists the inputs to the model used:

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

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

The fair value of the options granted is approximately HKD41,099,000 in aggregate, of which the Group recognised approximately HKD296,000 (RMB240,000) (2011: HKD2,069,000 (RMB1,718,000)) as share option expense in the consolidated statement of comprehensive income for the year ended 31 December 2012. The corresponding amount has been credited to the employee share-based compensation reserve. No liabilities were recognised as those are equity settled share-based payments transactions.

(ii) Share option scheme

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

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

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

37. SHARE-BASED EMPLOYEE COMPENSATION *(continued)*

(ii) Share option scheme *(continued)*

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

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

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

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

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

On 14 January 2011, the Company granted 175,920,000 share options to certain of its directors and employees for HKD1.00 consideration for each grant at an exercise price of HKD3.28 per share. The share options granted pursuant to the Share Option Scheme will be exercisable during three respective periods commencing from 14 January 2011, 14 January 2012 and 14 January 2013 and expiring on 13 January 2012, 13 January 2013 and 13 January 2014 respectively. Particulars of the share options granted under the Share Option Scheme were set forth in the announcement of the Company dated 16 January 2011.

37. SHARE-BASED EMPLOYEE COMPENSATION *(continued)*

(ii) Share option scheme *(continued)*

On 14 July 2011, the Company granted 536,600,000 share options to certain of its directors and employees for HKD1.00 consideration for each grant at an exercise price of HKD3.01 per share. The share options granted pursuant to the Share Option Scheme will be exercisable during three respective periods commencing from 14 July 2011, 14 July 2012 and 14 July 2013 and expiring on 13 July 2014. Particulars of the share options granted under the Share Option Scheme were set forth in the announcement of the Company dated 14 July 2011.

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

	2012		2011	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 January	**700,480,000**	**3.06**	51,300,000	3.03
Granted	**–**	**–**	712,520,000	3.08
Exercised	**–**	**–**	(43,139,000)	3.19
Forfeited	**–**	**–**	(3,600,000)	2.79
Expired	**(77,420,000)**	**3.17**	(16,601,000)	3.33
Outstanding at 31 December	**623,060,000**	**3.05**	700,480,000	3.06
Exercisable at 31 December	**445,305,000**	**3.04**	420,030,000	3.11

All the outstanding options granted on 28 July 2009 and 23 April 2010 were expired in 2011 and 2012 respectively.

The options granted on 14 January 2011 and 14 July 2011 which were outstanding at 31 December 2012 had exercise prices of HKD3.28 and HKD3.01 respectively.

No share option was exercised during the year. The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2011 was HKD3.43.

The weighted average remaining contractual life of the share options outstanding at 31 December 2012 was approximately 1.39 years (2011: 1.9 years).

37. SHARE-BASED EMPLOYEE COMPENSATION *(continued)*

(ii) Share option scheme *(continued)*

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

Share price grant on 14 January 2011	HKD3.22
Expected volatility*	39.20% – 53.70%
Risk-free interest rate	0.290% – 0.928%
Dividend yield	15%
Expected life of option	1 – 3 years
Fair value at 14 January 2011	HKD0.25 – HKD0.53
Exercise price at 14 January 2011	HKD3.28
Share price grant on 14 July 2011	HKD2.75
Expected volatility*	50.39%
Risk-free interest rate	0.542%
Dividend yield	15%
Expected life of option	3 years
Fair value at 14 July 2011	HKD0.33 – HKD0.38
Exercise price at 14 July 2011	HKD3.01

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

The fair value of the options granted is approximately HKD312,303,000 in aggregate, of which the Group and the Company recognised approximately HKD62,360,000 (RMB49,544,000) (2011: HKD187,970,000 (RMB156,057,000)) as share option expense in the consolidated statement of comprehensive income. The corresponding amount has been credited to the employee share-based compensation reserve. No liabilities were recognised as those are equity settled share-based payments transactions.

38. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2012	2011
	RMB'000	RMB'000
Within one year	**10,632**	14,529
In the second to fifth years	**10,193**	11,468
	20,825	25,997

The Group leases a number of properties under operating leases. The leases run for an initial period of 1 to 5 years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

The Company as lessee

The Company had no operating lease commitments as at 31 December 2012 (2011: Nil).

The Group as lessor

The Group leases out its investment properties under operating lease for the period. None of the lease includes contingent rentals. The properties held have committed tenants for 5 years. At the reporting date, future minimum rental receivables under non-cancellable operating lease falling due as follows:

	2012	2011
	RMB'000	RMB'000
Within one year	**8,000**	8,000
In the second to fifth years	**32,000**	32,000
Over five years	**–**	24,000
	40,000	64,000

The Company as lessor

The Company had no operating lease commitments as at 31 December 2012 (2011: Nil).

39. CAPITAL COMMITMENTS

Group

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

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
– additions to property, plant and equipment	**875,951**	2,209,376

Company

The Company does not have any significant capital commitments as at 31 December 2012 (2011: Nil).

40. FINANCIAL GUARANTEE CONTRACTS

The Company has executed guarantees amounting to RMB58,500,000 (2011: RMB65,000,000) with respect to a bank borrowing granted to a subsidiary of the Company. Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover the loan. At the reporting date, no provision for the Company's obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayments of any loans would be in default.

41. RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

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

	2012 RMB'000	2011 RMB'000
Salaries, allowances and other short-term employee benefits	8,731	8,353
Equity-settled share-based payments	9,372	29,324
Contribution to defined contribution pension plans	97	94
	18,200	37,771

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(i) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Except for bank deposits which are interest bearing (notes 27 and 28), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises primarily from borrowings (note 30). Borrowings obtained at variable rates and fixed rates expose the Group to cash flow interest-rate risk and fair value interest rate risk respectively.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(i) Interest rate risk *(continued)*

Management does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank deposits are not expected to change significantly.

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

As at 31 December 2012, approximately 71% of the Group's borrowings bore interest at floating rates (2011: approximately 84%). The interest rate and terms of repayment of borrowings are disclosed in note 30 above. The Group has not hedged its cash flow and fair value interest rate risk. The management monitors the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arises.

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

Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit after tax and retained earnings to a possible change in interest rates of +/- 1.5% (2011: +/- 1.5%), with effect from the beginning of the year. This sensitivity analysis is provided internally to key management personnel.

	Group Increase/(Decrease) in profit after tax and retained earnings	
	RMB'000	RMB'000
Change in interest rate	+1.5%	-1.5%
31 December 2012	(40,808)	40,808
31 December 2011	(18,061)	18,061

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 150 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2011.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(i) Interest rate risk *(continued)*

Sensitivity analysis *(continued)*

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

The Group's other loan from a third party is at fixed interest rates. The Group therefore does not have any exposure to interest rate risk at the reporting date.

(ii) Foreign currency risk

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

Summary of exposure

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net financial liabilities				
USD	**3,433,803**	2,901,897	**3,233,883**	2,518,987

In respect of those Group entities with HKD as functional currency, as HKD is linked to USD, the Group does not have material exchange risk on such currency. The following table illustrates the sensitivity of the Company's and Group's profit after tax and retained earnings in regards to a 10% (2011: 10%) appreciation in RMB against USD. These rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(ii) Foreign currency risk *(continued)*

Summary of exposure *(continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Decrease in profit after tax and retained earnings	**(7)**	(9)	**–**	–

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

(iii) Credit risk

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

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

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

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(iii) Credit risk *(continued)*

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

See note 25 to these financial statements for further details of the Group's exposures to credit risk on trade and other receivables.

(iv) Liquidity risk

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

The table below analyses the Group's and the Company's financial liabilities based on the remaining contractual maturity date at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or if floating, based on rates current at the reporting period).

Group	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Less than one year or on demand RMB'000	One to less than two years RMB'000	Two to less than five years RMB'000	More than five years RMB'000
As at 31 December 2012						
Borrowings	**3,959,936**	**4,697,149**	**1,481,924**	**630,382**	**1,817,874**	**766,969**
Convertible bonds	**849,653**	**1,166,134**	**856,416**	**309,718**	**–**	**–**
Trade and other payables	**802,266**	**802,266**	**802,266**	**–**	**–**	**–**
As at 31 December 2011						
Borrowings	2,433,351	3,043,883	2,155,637	616,677	271,569	–
Fixed rate senior notes	1,537,511	2,165,292	191,055	191,055	1,783,182	–
Convertible bonds	723,669	1,222,696	38,211	38,211	1,146,274	–
Trade and other payables	609,403	609,403	609,403	–	–	–

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(iv) Liquidity risk *(continued)*

Company	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Less than one year or on demand RMB'000	One to less than two years RMB'000	Two to less than five years RMB'000	More than five years RMB'000
As at 31 December 2012						
Borrowings	**3,251,012**	**3,950,867**	**982,547**	**383,477**	**1,817,874**	**766,969**
Convertible bonds	**849,653**	**1,166,134**	**856,416**	**309,718**	**–**	**–**
Trade and other payables	**96,432**	**96,432**	**96,432**	**–**	**–**	**–**
Issued financial guarantee contracts:						
Maximum amount guaranteed (note 40)	**–**	**58,500**	**58,500**	**–**	**–**	**–**

Company	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Less than one year or on demand RMB'000	One to less than two years RMB'000	Two to less than five years RMB'000
As at 31 December 2011					
Borrowings	1,057,136	1,174,566	685,206	313,442	175,918
Fixed rate senior notes	1,537,511	2,165,292	191,055	191,055	1,783,182
Convertible bonds	723,669	1,222,696	38,211	38,211	1,146,274
Trade and other payables	70,048	70,048	70,048	–	–
Issued financial guarantee contracts:					
Maximum amount guaranteed (note 40)	–	65,000	65,000	–	–

(v) Fair value

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

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(vi) Summary of financial assets and liabilities by category

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets:				
Loans and receivables				
– Trade and other receivables	**1,130,334**	1,258,146	**–**	5,127
– Loan to a subsidiary	**–**	–	**2,424,270**	2,293,151
Pledged deposits	**34,000**	156,568	**–**	122,568
Cash and bank balances	**3,264,432**	2,631,426	**21,231**	9,601
	4,428,766	4,046,140	**2,445,501**	2,430,447
Financial liabilities:				
At amortised cost				
– Trade and other payables	**802,266**	609,403	**96,432**	70,048
– Borrowings	**3,959,936**	2,433,351	**3,251,012**	1,057,136
– Fixed rate senior notes	**–**	1,537,511	**–**	1,537,511
– Loan commitment	**–**	64,778	**–**	64,778
– Convertible bonds	**849,653**	723,669	**849,653**	723,669
– Amounts due to subsidiaries	**–**	–	**64,308**	–
	5,611,855	5,368,712	**4,261,405**	3,453,142

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(vii) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth. The Group actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Group, to ensure optimal shareholder returns. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

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

	Group	
	2012	2011
	RMB'000	RMB'000
Borrowings	**3,959,936**	2,433,351
Fixed rate senior notes	**–**	1,537,511
Loan commitment	**–**	64,778
Convertible bonds	**849,653**	723,669
Trade and other payables	**802,266**	657,523
Less: Pledged deposits	**(34,000)**	(156,568)
Cash and bank balances	**(3,264,432)**	(2,631,426)
Net debts	**2,313,423**	2,628,838
Equity	**14,631,749**	13,307,663
Net debts to equity ratio	**16%**	20%

Five Year Financial Summary

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**4,507,475**	4,575,759	1,961,215	1,344,032	1,140,354
Cost of sales	**(1,802,991)**	(1,672,296)	(541,551)	(364,427)	(343,794)
Gross profit	**2,704,484**	2,903,463	1,419,664	979,605	796,560
Gross profit margin	**60.00%**	63.45%	72.39%	72.89%	69.85%
Operating profit	**2,335,488**	2,152,605	1,294,014	877,379	712,383
Impairment loss on property, plant and equipment	**(318,000)**	–	–	–	–
Impairment loss on land use rights	**(7,000)**	–	–	–	–
Impairment loss on a mining right	**(17,000)**	–	–	–	–
Loss on early redemption of fixed rate senior notes	**(131,436)**	–	–	–	–
Finance costs	**(163,622)**	(423,535)	(241,569)	(105,913)	(98,800)
Profit before income tax	**1,698,430**	1,729,070	1,052,445	771,466	613,583
Income tax expense	**(353,099)**	(456,805)	(323,103)	(226,561)	(171,503)
Profit for the year	**1,345,331**	1,272,265	729,342	544,905	442,080
Profit attributable to:					
Owners of the Company	**1,345,331**	1,253,286	729,342	532,966	429,739
Non-controlling interests	**–**	18,979	–	11,939	12,341
	1,345,331	1,272,265	729,342	544,905	442,080
Earnings per share (RMB cents) – Basic	**24.05**	23.23	37.42	30.49	28.27
Earnings per share (RMB cents) – Diluted	**23.89**	23.20	37.32	30.17	NA
Assets, liabilities and non-controlling interests					
Total assets	**20,858,452**	19,322,362	4,914,835	4,113,299	1,903,897
Total liabilities	**(6,226,703)**	(6,014,699)	(2,371,441)	(2,325,057)	(1,078,355)
Non-controlling interests	**–**	–	–	–	(40,242)