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三江化工
SANJIANG CHEMICAL

CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED

中國三江精細化工有限公司

(incorporated in the Cayman Islands with limited liability)

(stock code: 2198)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010
AND
CHANGE OF PRINCIPAL PLACE OF BUSINESS
IN HONG KONG**

CHAIRMAN'S STATEMENT

FINANCIAL HIGHLIGHTS

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,582,526	1,285,533
Net profit attributable to equity holders of the parent	266,126	242,075
Earnings per share – Basic and diluted (RMB)	34.82 cents	37.43 cents

On behalf of the board of directors (the “Board”) of China Sanjiang Fine Chemicals Company Limited (the “Company”), I am pleased to announce the annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2010.

2010 was definitely a milestone for our Group. The success of the listing (the “Listing”) of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 September 2010 (the “Listing Date”) has provided our Group with the financial platform to accelerate our Group’s expansion in production capacities and sales network. Furthermore, the Listing also enhances our brand name, our corporate image and the transparency of corporate governance and allows our Group to share our success with our shareholders. The Board has recommended a final dividend of HK\$9.5 cents (RMB8.0 cents) per share, representing a total payout of approximately RMB81.9 million and a dividend payout ratio of approximately 30.8% for the year ended 31 December 2010.

During the year under review, revenue of the Group reached approximately RMB1,582.5 million, representing an increase of approximately 23.1% as compared to revenue of approximately RMB1,285.5 million for 2009. Net profit attributable to equity holders of the parent increased by approximately 9.9% to approximately RMB266.1 million for the year end 31 December 2010 as compared with last year.

MARKET REVIEW

The robust economy and urbanisation growth in the People's Republic of China ("PRC") have brought numerous business opportunities to us. The demand for both ethylene oxide and AEO surfactants, our major products, basically remained strong in 2010. The GDP of PRC grew at a rate of 10.3% in 2010 and it is expected the GDP growth momentum will be maintained at a similar level in the next 5 years. The urbanisation rate of PRC for 2010 is expected to be 48.0% as compared with 46.6% and 45.7% in 2009 and 2008 respectively. We believe the growth trend of urbanisation will continue as it is generally expected that PRC's urbanization rate may reach 65.0% by 2030. The rapid growth of the PRC economy and urbanisation have led to improving living standard which, in turn, created growing and sustainable demand for hygiene and cleansing products and cosmetic products and the demand of our ethylene oxide and AEO surfactants, being the core feedstocks for manufacturing these products, are directly benefited.

The application of our ethylene oxide has been extended to construction and cement industries in 2010. Apart from the demand from downstream manufacturers of detergent and cleansing products, the demands for our ethylene oxide from construction and cement industries are soaring and we expect it will be a significant source of our revenue in the next 5 years in view of increasing usage of superplasticizers (high range water reducer) in the construction and cement industries. The main purpose of using superplasticizers in the construction and cement industries is to produce high-strength concrete and flowing concrete to be used in heavily reinforced structures and our ethylene oxide is the core feedstock of superplasticizers.

BUSINESS REVIEW

Our Group will continue to strengthen our leading market position in the PRC through various well-formulated strategies such as expanding production capacity, expanding product coverage and functionality and improving product quality.

Our Group has various ongoing expansion plans and believes that our expansion plans will enable us to meet the growth in demand we anticipate for our products and will help us to capture a larger share of the markets in which we operate. We are now finalising the third phase construction of ethylene oxide production facilities at our production plant in Jiaxing City, Zhejiang Province, the PRC and expect the production line will be in a position for commercial operation by late March 2011 and subject to the approval of relevant authority, its commercial operation will commence. Upon completion of the third phase construction, our designed annual production capacity of ethylene oxide will be increased by 50% from the existing designed production capacity of 120,000 MT in 2010 to an aggregate designed production capacity of 180,000 MT. In connection with the expected commercial operation of the third phase ethylene oxide production line, by the end of January 2011, we have received letters of intent from various potential and existing customers expressing their intention to purchase for ethylene oxide with volume which exceeds the expected production volume of the third phase ethylene oxide production line in 2011.

In the meantime, we have commenced the construction of the first phase ethylene oxide production line of Sanjiang Honam, the sino-foreign joint venture company we established in 2010 with Honam Petrochemical Corp, an independent third party. The first phase ethylene oxide production facilities of Sanjiang Honam will have a designed annual production capacity of approximately 100,000 MT and we are entitled to purchase 50% of all ethylene oxide produced by Sanjiang Honam, at cost. We expect commercial operation of the production line will take place in late March 2012.

We will strengthen our research and development team and plan to spend an amount of not less than 3% of our annual revenue each year to expand our product coverage by developing new types of surfactants and to improve the quality of our existing products and production technologies

including but not limited to increasing the reaction efficiency of catalyst .

FINANCIAL REVIEW

Through the Listing on the Stock Exchange on 16 September 2010, our Group raised net proceeds of approximately HK\$831.6 million, which solidified our equity base and improved our interest-bearing debt to equity ratio significantly from approximately 2.9x as at 30 June 2010, the latest publicly available consolidated financial statements of the Group, to approximately 0.6x as at 31 December 2010.

During the year under review, our Group's overall gross profit margin decreased by 4.9% from 27.7% for the year ended 31 December 2009 to 22.8% for the year ended 31 December 2010 while our Group's overall gross profit margin for the second half of 2010 improved by 6.4% from 19.3% for the first half of 2010 to 25.7% for the second half of 2010. There are three major factors led to the decrease in overall gross profit margin on a YOY basis in 2010: 1) the inclusion of our revenue from ethylene oxide processing service in 2009; 2) the inclusion of 2% customs levy imposed on the imported ethylene by the General Administration of Customs of the PRC starting from 1 January 2010 which is an additional cost to our sales; and 3) downward price pressure during the first half of 2010 as a result of the significant increase in the market supply of ethylene oxide. In early 2009, in view of the uncertainty arising from the financial crisis, our Group aimed to lower the stock level and at the same time, maintain the normal production level of ethylene oxide. As such, our Group used part of our ethylene oxide production capacity to provide ethylene oxide processing services to a major customer, but we did not engage in such processing services in 2010. Our pricing of ethylene oxide processing services was on a cost-plus basis and with reference to the gross profit made from normal ethylene oxide sales. During the first half of 2010, the significant increase in market supply of ethylene oxide was primarily resulted from the launch of new production facilities of ethylene oxide by a number of manufacturers. The downward price pressure of ethylene oxide started to relax since July 2010 after the market has substantially absorbed the newly increased supply of ethylene oxide and the demand of ethylene oxide has returned to be strong since August 2010 which led to the increase in unit selling price of ethylene oxide and in turn, the improvement of overall gross profit margin in the second half of 2010.

We have put enormous efforts and implemented stringent measures on cost control this year. In the first half of 2010, ethylene, our principal feedstock, experienced significant price volatility as driven by multiple factors including but not limited to supply volatility of ethylene from Middle East, fluctuations in international crude oil prices and low global inventory level of ethylene. It is our Group's general strategy to minimise the effect of raw material price volatility through product price adjustment. However, the downward price pressure as mentioned above during the first half of 2010 limited the extent of product price adjustment and our gross profit margin in the first half of 2010 was adversely affected. In order to minimise the adverse impact of short term price volatility on ethylene, we commenced the construction of an additional ethylene storage tank with a total storage capacity of approximately 22,000 cubic metres at a parcel of land owned by us at Port of Zhapu, Jiaying City, Zhejiang Province, PRC during the second quarter of 2010 and expect the completion of the storage tank will take place in late July/early August 2011. With the new storage tank, we can build up an inventory buffer in total for a period of approximately 2 months before the commercial operation of the third phase ethylene oxide production facilities and approximately 1.5 months after the commercial operation of the third phase ethylene oxide production facilities, which will smooth the volatility of our ethylene costs as well as improve our gross profit margin in a large extent.

Apart from the aforesaid, we also implemented other cost control measures. We managed to lower our finance costs by approximately 41.9% or RMB13.8 million from approximately RMB32.9 million in 2009 to approximately RMB19.1 million in 2010 through refinancing bank borrowings with relatively high rates at the time when the market offered relatively favorable rates and entering into bank borrowings denominated in USD in view of the continuing appreciation of RMB against

USD. The new fund our Group raised in the Listing also provided us with more flexibility during our negotiations with banks as to the terms of bank borrowings.

We are also dedicated to optimize our management structure and operational procedures and processes in order to raise our overall efficiency and save costs. We have set out a series of plans including but not limited to freezing headcount of certain departments and reallocating excess employees between departments aiming to reduce the headcount gradually up to 10% through among other things increasing automation in our monitoring process on ethylene oxide production and combining posts with similar responsibilities and functions. In 2011, we expect no additional employee is required for the operation of the third phase ethylene oxide production facilities

PROSPECT

Looking forward, our Group will continue to be benefited from the macro environment such as the rapid growth of economy and urbanization of PRC as well as the expansion of application of our major products and our well-formulated strategies such as expanding production capacity, expanding product coverage and functionality and improving product quality which will solidify our leading market position in PRC and enable us to outperform our competitors in terms of growth and profitability.

ACKNOWLEDGEMENT

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

GUAN Jianzhong

Chairman

People's Republic of China, 21 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	<i>Notes</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
REVENUE	6	1,582,526	1,285,533
Cost of sales	8	<u>(1,222,362)</u>	<u>(929,212)</u>
Gross profit		360,164	356,321
Other income and gains	6	50,187	21,204
Selling and distribution cost		(2,064)	(2,966)
Administrative expenses		(63,510)	(37,473)
Other expenses		(6,786)	(336)
Finance costs	7	(19,087)	(32,915)
Share of losses of jointly-controlled entity	9	<u>(330)</u>	<u>-</u>
PROFIT BEFORE TAX	8	318,574	303,835
Income tax expense	10	<u>(52,263)</u>	<u>(43,673)</u>
PROFIT FOR THE YEAR		<u>266,311</u>	<u>260,162</u>
Attributable to:			
Equity holders of the parent		266,126	242,075
Non-controlling interests		<u>185</u>	<u>18,087</u>
		<u>266,311</u>	<u>260,162</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic	11	<u>34.82 cents</u>	<u>37.43 cents</u>
DIVIDEND DECLARED DURING THE YEAR	12	<u>81,852</u>	<u>-</u>

CONSOLIDATED STATEMENT OF FINANCE POSITION

At 31 December 2010

		2010 RMB'000	2009 RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		1,051,112	897,322
Prepaid land lease payments		45,467	48,539
Intangible assets		17,339	19,654
Advance payments for property, plant and equipment		77,218	53,941
Investment in jointly-controlled entity	9	29,103	-
Available-for-sale investments	13	50,000	-
Deferred tax assets	19	45	627
Total non-current assets		<u>1,270,284</u>	<u>1,020,083</u>
CURRENT ASSETS			
Inventories	14	103,952	67,717
Trade and notes receivables	15	35,662	38,763
Prepayments, deposits and other receivables		32,985	22,260
Due from related parties		-	142,403
Pledged deposits	16	492,910	236,547
Cash and cash equivalents	16	601,249	109,205
Total current assets		<u>1,266,758</u>	<u>616,895</u>
CURRENT LIABILITIES			
Trade and bills payables	17	202,433	254,083
Other payables and accruals		132,050	136,764
Interest-bearing bank borrowings	18	745,400	629,986
Due to directors		7,863	1,564
Due to related parties		5,218	5,878
Due to the parent and ultimate holding company		-	68,282
Dividends payable		-	172,036
Tax payable		27,996	11,865
Total current liabilities		<u>1,120,960</u>	<u>1,280,458</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>145,798</u>	<u>(663,563)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,416,082</u>	<u>356,520</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	18	48,360	89,500
Deferred tax liabilities	19	32,911	32,822
Total non-current liabilities		<u>81,271</u>	<u>122,322</u>
Net assets		<u>1,334,811</u>	<u>234,198</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		88,419	901
Reserves		1,162,504	233,459
Proposed final dividend	12	81,852	-
		<u>1,332,775</u>	<u>234,360</u>
Non-controlling interests		2,036	(162)
Total equity		<u>1,334,811</u>	<u>234,198</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

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

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

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 16 September 2010.

2. BASIS OF PRESENTATION AND PREARATION

Pursuant to the group reorganization (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group on 1 September 2009 by acquiring the entire issued share capital of Capitol International Limited (“Capitol International”), a company incorporated in Hong Kong. Details of the Reorganisation are set out in the prospectus of the Company dated 3 September 2010. The Reorganisation is accounted for as business combination under common control in accordance with the Accounting Guidance 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) through combining the financial results and positions of entities comprising the Group as if the current group structure resulted from the Reorganisation had been in existence throughout the periods, or since their respective dates of incorporation, whichever is a shorter period and eliminating all intra-group transactions and balances as all of the combining entities are ultimately controlled by the same parties both before and after the business combination.

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

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFAS 1 Amendment	<i>Amendments to HKFRS 1 First-time Adoption of Hong</i>

	<i>Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment - Group Cash-settled Share-base Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement - Eligible Hedged Items</i>
HK(IFRIC) – Int 17	<i>Distributions of Non-cash Assets to Owners</i>
HKFRS 5 Amendments included in <i>Improvements to HKFRSs 2008</i>	Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations - Plan to Sell the controlling Interest in a Subsidiary</i>
HK Interpretation 4 Amendment	Amendments to HK Interpretation 4 <i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK Interpretation 5	<i>Presentation of Financial Statement – Classification by the borrower of Term Loan that Contains a Repayment on Demand Clause</i>

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

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendment	Amendments to HKFRS 1 <i>Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of financial Assets</i> ⁴
HKFRS 9	<i>Financial Instruments</i> ⁵
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ³
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ³
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

¹ Effective for annual periods beginning on or after 1 February 2010

² Effective for annual periods beginning on or after 1 July 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 July 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the

Group is as follows:

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- (a) HKFRS 3 Business Combinations: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the scope of measurement choices of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) HKAS 1 Presentation of Financial Statements: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (c) HKAS 27 Consolidated and Separate Financial Statements: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

5 SEGMENT INFORMATION

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

Entity-wide disclosures

Information about products

The following table sets forth the total revenue from external customers by product during the periods:

	2010 RMB'000	2009 RMB'000
Ethylene oxide	1,318,168	925,110
Surfactants	156,211	216,585
Other chemical products	87,516	74,969
Processing services	17,127	66,395
Others	<u>3,504</u>	<u>2,474</u>
	<u>1,582,526</u>	<u>1,285,533</u>

Geographical information

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

6 REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of valued-added tax and government surcharges, and after allowances for returns and trade discounts.

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

	2010 RMB'000	2009 RMB'000
<u>Revenue</u>		
Sales of goods	1,561,895	1,216,664

Provision of services	17,127	66,395
Others	<u>3,504</u>	<u>2,474</u>
	<u>1,582,526</u>	<u>1,285,533</u>

Other income and gains

Bank interest income	14,601	7,573
Government subsidies*	14,187	10,155
Foreign exchange gains, net	16,093	942
Other lease income	2,748	403
Others	<u>2,558</u>	<u>2,131</u>
	<u>50,187</u>	<u>21,204</u>

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

7 FINANCE COSTS

An analysis of finance costs is as follows:

	2010 RMB'000	2009 RMB'000
Interest on bank loans wholly repayable within five years	21,674	32,915
Less: interest capitalised	<u>(2,587)</u>	<u>-</u>
	<u>19,087</u>	<u>32,915</u>

8 PROFIT BEFORE TAX

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

	2010 RMB'000	2009 RMB'000
Cost of inventories sold	1,220,725	927,554
Others	<u>1,637</u>	<u>1,658</u>
	<u>1,222,362</u>	<u>929,212</u>
Depreciation	69,088	76,805
Recognition of prepaid land lease payments	1,040	920
Amortisation of intangible assets	3,031	3,020
Loss on disposal of property, plant and equipment	28	7
Write-down/ (Reversal) of inventories to net realisable value	(7)	94
Impairment of other receivables	<u>-</u>	<u>36</u>

9 INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	2010 RMB'000	2009 RMB'000
Share of net assets	<u>29,103</u>	<u>-</u>

Particulars of the jointly-controlled entity are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Sanjiang Honam Petrochemical Company Limited	People's Republic of China 11 May 2010	US\$12,000,000	50 (indirect holding)	Manufacture of ethylene oxide

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Share of the jointly-controlled entity' assets and liabilities:		
Current assets	24,253	-
Non-current assets	4,850	-
Current liabilities	-	-
Non-current liabilities	-	-
Net assets	<u>29,103</u>	<u>-</u>

Share of the jointly-controlled entity' results:

Total expenses	(330)	-
Tax	-	-
Loss after tax	<u>(330)</u>	<u>-</u>

10 INCOME TAX EXPENSE

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

The income tax expense of the Group for the periods are analysed as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Current - PRC		
Charge for the year	51,592	24,381
Deferred	<u>671</u>	<u>19,292</u>
Total tax charge for the year	<u>52,263</u>	<u>43,673</u>

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

Pursuant to the relevant tax law of Hong Kong Special Administrative Region, Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision of income tax has been made as the Group had no taxable income derived from Hong Kong during the

year.

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

Sanjiang Chemical was registered as a foreign-invested enterprise on 9 December 2003. Sanjiang Chemical was subject to CIT at the rate of 25% for the years ended 31 December 2010 and 2009. Pursuant to the approval of the tax bureau, Sanjiang Chemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. The first profitable year of Sanjiang Chemical was 2006. Therefore, Sanjiang Chemical was subject to CIT at a reduced rate of 12.5% for the years ended 31 December 2010 (2009: 12.5%).

Yongming Petrochemical was registered as a foreign-invested enterprise on 9 December 2003 and subject to CIT at the rate of 25% for the years ended 31 December 2010 and 2009. Pursuant to the approval of the tax bureau, Yongming Petrochemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. In accordance with the Corporate Income Tax Law, the tax concession would be deemed to be to commence from 1 January 2008 even if the Company did not have taxable profits at that time. Although Yongming Petrochemical was in an accumulative loss position as of 1 January 2008, its tax concession was deemed to have started in 2008. Therefore, Yongming Petrochemical was subject to CIT rate of 12.5% for the years ended 31 December 2010 (2009: 0%).

Guanlang was registered as a domestic-invested enterprise on 29 September 2005 and was subject to CIT at the rate of 25% for the years ended 31 December 2010 (2009: 25%).

Sanjiang Trading was registered as a domestic-invested enterprise on 29 October 2004 and was subject to CIT at a rate of 25% for the years ended 31 December 2010 (2009: 25%).

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

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

	2010 RMB'000	2009 RMB'000
Profit before tax	<u>318,574</u>	<u>303,835</u>
Tax at the statutory tax rates	79,644	75,959
Tax effect of tax concession and allowances	(37,086)	(52,754)
Tax losses not recognised	910	121
Expenses not deductible for tax	734	3,152
Effect of withholding tax at 10% on the		

distributable profits of the Group's PRC subsidiaries	8,088	18,712
Tax losses utilized from previous years	<u>(27)</u>	<u>(1,517)</u>
Tax charge at the Group's effective rate	<u>52,263</u>	<u>43,673</u>

11 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 764,317,000 (2009: 646,800,000) in issue during the year, as adjusted to reflect the Listing during the year.

The number of ordinary shares outstanding increases as a result of capitalization and the calculation of basic earnings per share for all the periods presented had been adjusted retrospectively.

The calculations of basic earnings per share are based on:

	2010	2009
Profit attributable to ordinary equity holders of the Company use in basic earnings per share calculation (RMB)	<u>266,126,000</u>	<u>242,075,000</u>
Weight average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>764,317,000</u>	<u>646,800,000</u>

12 DIVIDENDS

The Board of Directors recommends the payment of a final dividend of HK\$9.5 cents (RMB8.0 cents) per share for the year ended 31 December 2010 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The exchange rate adopted for conversion is the average closing exchange rate published by the People's Bank of China of the five business days prior to the declaration of dividends.

13 AVAILABLE-FOR-SALES INVESTMENTS

	2010 RMB'000	2009 RMB'000
Unlisted equity investment, at fair value	<u>50,000</u>	<u>-</u>

The above investments consist of investments in equity securities which have a fixed maturity of 18 months and no fixed coupon rate.

14 INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	100,436	57,773
Finished goods	<u>3,516</u>	<u>9,944</u>

15 TRADE AND NOTES RECEIVABLES

	<u>103,952</u>	<u>67,717</u>
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	13,023	17,827
Notes receivables	<u>22,639</u>	<u>21,202</u>
	35,662	39,029
Less: Impairment	<u>-</u>	<u>(266)</u>
	<u>35,662</u>	<u>38,763</u>

The credit term generally arranges from 15 days to 30 days, extending up to three months for certain major customers.

The movement in provision for impairment of trade receivables is as follows:

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	266	266
Amount written off as uncollectible	<u>(266)</u>	<u>-</u>
At end of year	<u>-</u>	<u>266</u>

As at 31 December 2010, the provision for individually impaired trade receivables is nil (31 December 2009: RMB266,000). The individually impaired trade receivables are long term and relate to customers that have no transaction with the Group anymore, and none of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 30 days	33,111	12,947
31 to 60 days	342	6,691
61 to 90 days	86	5,032
91 to 360 days	1,511	3,537
Over 360 days	<u>612</u>	<u>10,822</u>
	<u>35,662</u>	<u>39,029</u>

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

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	33,792	23,207
Less than 30 days past due	292	3,449
31 to 60 days past due	86	739
61 to 90 days past due	636	103

91 to 360 days past due	558	709
Over 360 days	<u>298</u>	<u>10,556</u>
	<u>35,662</u>	<u>38,763</u>

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

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

16 CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2010 RMB'000	2009 RMB'000
Cash and bank balances	601,249	109,205
Time deposits	<u>492,910</u>	<u>236,547</u>
	1,094,159	345,752
Less: Pledged time deposits:		
Pledged for bank loans	492,910	221,150
Pledged for bills payables	<u>-</u>	<u>15,397</u>
Cash and cash equivalents	<u>601,249</u>	<u>109,205</u>

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

17 TRADE AND BILLS PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	202,433	159,157
Bills payables	<u>-</u>	<u>94,926</u>
	<u>202,433</u>	<u>254,083</u>

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

	2010 RMB'000	2009 RMB'000
Within 3 months	193,976	189,799
3 to 6 months	7,535	62,172
6 to 12 months	137	259
12 to 24 months	380	1,095
24 to 36 months	20	89
Over 36 months	<u>385</u>	<u>669</u>

202,433 254,083

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

18 INTEREST-BEARING BANK BORROWINGS

	<i>Effective Interest rate (%)</i>	<i>Maturity</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Current				
Bank loans – secured *	1.184-8.127	Within 1 year	-	551,986
Bank loans – secured *	1.101-4.253	Within 1 year	618,182	-
Bank loans – unsecured	1.876-5.598	Within 1 year	106,218	-
Current portion of long term bank loans – secured *7.371-8.127			-	28,000
Discounted bank acceptances *3.641-4.430			21,000	-
	0.185-4.440		-	<u>50,000</u>
			<u>745,400</u>	<u>629,986</u>
Non-current				
Bank loans – secured *	7.371-8.280	2011.11.15		
		-2013.4.26	-	89,500
	5.598	2012.12.20		
		-2014.12.20	<u>48,360</u>	<u>-</u>
			<u>48,360</u>	<u>89,500</u>
			<u>793,760</u>	<u>719,486</u>
Repayable:				
Within one year or on demand			745,400	629,986
In the second year			28,360	42,000
In the third to fifth years, inclusive			<u>20,000</u>	<u>47,500</u>
			<u>793,760</u>	<u>719,486</u>

* The Group's bank borrowings are secured by:

- (i) No mortgages over the Group's buildings and plant and machinery situated in the PRC as at 31 December 2010 (31 December 2009: RMB201,896,000).
- (ii) No mortgages over the Group's leasehold land situated in the PRC as at 31 December 2010 (31 December 2009: RMB9,411,000).
- (iii) Pledge of certain of the Group's time deposit amounting to RMB492,910,000, as at 31 December 2010 (31 December 2009: RMB221,150,000).

19 DEFERRED TAX

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

Deferred tax liabilities

Withholding tax on the
Distributable profits

	<i>RMB'000</i>
At 1 January 2009	14,110
Deferred tax charged to the income statement during the year	<u>18,712</u>
At 31 December 2009 and 1 January 2010	<u>32,822</u>
Deferred tax charged to the income statement during the year	8,088
Deferred tax utilised during the year	<u>(7,999)</u>
At 31 December 2010	<u>32,911</u>

Deferred tax assets

	Impairment of assets <i>RMB'000</i>	Pre- operating expense <i>RMB'000</i>	Unrealized profit attributable to intra-group transactions <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009	36	1,158	13	1,207
Deferred tax credited/(charged) to the income statement during the year	<u>9</u>	<u>(579)</u>	<u>(10)</u>	<u>(580)</u>
At 31 December 2009 and 1 January 2010	<u>45</u>	<u>579</u>	<u>3</u>	<u>627</u>
Deferred tax charged to the income statement during the year	<u>-</u>	<u>(579)</u>	<u>(3)</u>	<u>(582)</u>
At 31 December 2010	<u>45</u>	<u>-</u>	<u>-</u>	<u>45</u>

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividend distributed by foreign invested subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The Group recognised deferred tax liabilities in respect of accumulated distributable earnings from its foreign invested subsidiaries established in Mainland China since 1 January 2008, no matter whether such earnings have been declared or not by the foreign invested subsidiaries at the reporting date.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and jointly-controlled entities will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries

and jointly-controlled entities in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB18,871,198 (2009:Nil).

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

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

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Tax losses of Capitol international	4,038	-
Tax losses of Sanjiang Trading	374	14
Tax losses of Hangzhou Sanjiang	601	-
Tax losses of Guanlang	<u>-</u>	<u>107</u>
	<u>5,013</u>	<u>121</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue

Revenue for the year under review was approximately RMB1,582.5 million, an increase of approximately 23.1%, compared to revenue of approximately RMB1,285.5 million for last year. The increase in revenue was primarily due to the increase in sale of ethylene oxide during the year.

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

	<i>Full year 2010</i>	<i>% of revenue</i>	<i>Full year 2009</i>	<i>% of revenue</i>
<u>REVENUE (RMB'000)</u>				
Ethylene oxide	1,318,168	83%	925,110	72%
Surfactants	156,211	10%	216,585	17%
Ethylene oxide processing services	-	-	53,580	4%
Surfactants processing services	17,127	1%	12,815	1%
Others	91,020	6%	77,443	6%
	<u>1,582,526</u>	100%	<u>1,285,533</u>	100%

SALES VOLUME (MT)

Ethylene oxide	127,658	108,801
Surfactants	14,008	24,276
Ethylene oxide processing services	-	15,672
Surfactants processing services	38,338	29,399

AVERAGE SELLING PRICE (RMB)

Ethylene oxide	10,326	8,503
Surfactants	11,152	8,922
Ethylene oxide processing services	-	3,419
Surfactants processing services	447	436

Ethylene oxide sales

The annual designed ethylene oxide production capacity as at both 31 December 2009 and 31 December 2010 was 120,000 MT/year. The sales volume of ethylene oxide (including ethylene oxide processing services) maintained at a similar level in 2010 as compared with 2009 (2010: 127,658MT; 2009: 124,473MT). In early 2009, in view of the uncertainty arising from the financial crisis, the Group aimed to lower the stock level and at the same time, maintain the normal production level of ethylene oxide and as such, used part of our ethylene oxide production capacity to provide ethylene oxide processing services to a major customer. The Group did not engage in such processing services in 2010.

During the year under review, the aggregate revenue from ethylene oxide sales and ethylene oxide processing services amounted to RMB1,318.2 million, which represents an increase of approximately 34.7% or RMB339.5 million when comparing to 2009. The increase in revenue was primarily due to: 1) the inclusion of our revenue from ethylene oxide processing service in 2009; and 2) increase in average selling price of ethylene oxide by approximately 21.4% to RMB10,326/MT in 2010 from RMB8,503/MT in 2009. Our pricing of ethylene oxide processing services was on a cost-plus basis and with reference to the gross profit made from normal ethylene oxide sales. The increase in average selling price of ethylene oxide by 21.4% in 2010 was mainly due to the strong demand from downstream manufacturers of hygiene and cleansing products and cosmetic products.

In 2010, the utilisation rate (measured as actual output divided by designed capacity) of our ethylene oxide production facilities reached 110% (2009: 117%), representing the fact that the Group's ethylene oxide production facilities were operated in a full capacity in 2010 and 2009. In order to capture the strong demand from downstream manufacturers of hygiene and cleansing products and cosmetic products and in turn, create revenue growth, the Group has developed various ongoing expansion plans and believes that our expansion plans will enable us to meet the growth in demand we anticipate for our products and will help us to capture a

larger share of the markets in which we operate. Please refer to the section headed “Business Review” under **Chairman’s Statement** for more details of the Group’s expansion plan in 2011.

Surfactants sales

The annual designed surfactants production capacities as at 31 December 2010 and 31 December 2009 were 218,000 MT/year and 118,000 MT/year respectively. The increase in annual designed surfactants production capacity by 100,000 MT/year in 2010 was due to the completion of the second phase construction of the production facilities of surfactants in August 2010.

As a downstream product of ethylene oxide, the price of surfactant is affected by the price of ethylene oxide. Therefore, the average selling price of our surfactants increased by 25.0% to RMB11,152/MT in 2010 when comparing to 2009.

During the year under review, the sales volume of surfactants for the year ended 31 December 2010 was 14,008MT which represents a decrease by 42.3% from 24,276MT in 2009. The decrease in surfactants sales was mainly due to the fact that less ethylene oxide produced in-house was being allocated to the production of surfactants while at the same time we increased our surfactants processing services volume. As a result of the limited supply of ethylene oxide internally as mentioned above and the strong demand from the market, more ethylene oxide was allocated for direct sales instead of internal consumption. In order to secure a steady stream of revenue for our newly expanded surfactant production capacities, we entered into surfactants processing service contract with a major surfactant customer on a yearly basis. As such, more self-manufactured ethylene oxide was allocated to provide surfactants processing services.

Income from provision of surfactant processing service

Sales of our surfactant processing services increased by approximately 33.6% from approximately RMB12.8 million in 2009 to approximately RMB17.1 million in 2010. The increase was primarily due to the fact that we entered into a surfactants processing service contract with a major surfactant customer on a yearly basis.

Others

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

Gross profit and gross margin

Overall gross profit increased to approximately RMB360.2 million for the year ended 31 December 2010 (2009: RMB356.3 million) while the overall gross profit margin decreased from 27.7% for 2009 to 22.8% for 2010. The primary factor that caused the decrease in gross margin was the decrease in gross profit margin of ethylene oxide.

The following table set forth the approximate gross profit margins of our major products during the years under review:

	2010		2009		Change	
	<i>Ethylene oxide</i>	<i>Surfactants</i>	<i>Ethylene oxide</i>	<i>Surfactants</i>	<i>Ethylene oxide</i>	<i>Surfactants</i>
<u>Gross profit margin (%)</u>						
1st half year	19.5%	16.2%	36.6%	19.0%	-17.1%	-2.8%
2nd half year	25.3%	22.4%	25.1%	17.0%	0.2%	5.4%
Full year	22.2%	19.2%	29.9%	18.1%	-7.7%	1.1%

The gross profit margin of ethylene oxide decreased by 7.7% from 29.9% for the year ended 31 December 2009 to 22.2% for the year ended 31 December 2010 while the gross profit margin for the second half of 2010 improved by 5.8% from 19.5% for the first half of 2010 to 25.3% of the second half of 2010. There are three major factors led to the decrease in the gross profit margin of ethylene oxide on a YOY basis in 2010: 1) the inclusion of our revenue from ethylene oxide processing service in 2009; 2) the inclusion of 2% customs levy imposed on the imported ethylene by the General Administration of Customs of the PRC starting from 1 January 2010 which is an additional cost to our sales; and 3) downward price pressure during the first half of 2010 as a result of the significant increase in the market supply of ethylene oxide. Please refer to the section headed “Financial Review” under **Chairman’s Statement** for elaboration on the abovementioned three major factors as well as the rationale for the improvement on gross profit margin of ethylene oxide in the second half of 2010 when comparing to the first half of 2010.

The gross profit margin of surfactants moved basically in line with the movement of the gross profit margin of ethylene oxide as surfactants is the downstream product of ethylene oxide and both ethylene oxide and surfactants are subject to the similar sources of demand and supply.

Other income and gains

Other income and gains increased by approximately RMB29.0 million from approximately RMB21.2 million for the year ended 31 December 2009 to RMB50.2 million for the year ended 31 December 2010 which was mainly due to increase in foreign exchange gains (2010: approximately RMB16.1 million; 2009: approximately RMB0.9 million) and increase in bank interest income (2010: approximately RMB14.6 million; 2009: approximately RMB7.6 million) as a result of appreciation of RMB against USD in 2010 while majority of our purchases are denominated in USD and increase in the average balance of pledged deposits and cash and cash equivalents over the year.

Administrative and other expenses

Administrative and other expenses consist mainly of staff related costs, various local taxes and educational surcharge, depreciation, amortization of land use rights, operating lease rental expenses, audit fee and miscellaneous expenses. The increase in administrative and other expenses for the year ended 31 December 2010 was mainly due to the increase in professional fees in relation to the listing of the Group on 16 September 2010 (2010: RMB18.8 million; 2009: 2.6 million) and increase in salaries, allowance and benefits in kind (2010: RMB19.1 million; 2009: RMB9.7 million).

Finance costs

The Group borrows loans from banking institutions in the PRC for financing its working capital and its overseas procurement. The decrease in finance costs for the year ended 31 December 2010 was mainly due to the lower effective interest rate of 2.52% in 2010 when comparing to 2009 of 4.37% as the Group managed to refinance bank borrowings with relatively high rates at the time when the market offered relatively favorable rates.

Income tax

The Group had an overall income tax expense of approximately RMB52.3 million for the year ended 31 December 2010, or 16.4% of pre-tax income compared to the income tax expense of approximately RMB43.7 million for 2009, or 14.4% of pre-tax income as Yongming Petrochemical commenced to pay its corporate income tax from 2010 onwards.

Profit for the year

The Group generated profit attributable to equity holders of the parent of approximately RMB266.1 million in 2010, compared to profit attributable to equity holders of the parent of approximately RMB242.1 million in 2009.

LIQUIDITY AND FINANCIAL RESOURCES

Financial position and bank borrowings

The Group had cash and bank balances of approximately RMB601.2 million (2009: approximately RMB109.2 million), most of which were denominated in Renminbi. The Group had interest-bearing bank borrowings of approximately RMB793.8 million as at 31 December 2010 (2009: approximately RMB719.5 million). Please refer to note 18 to the consolidated financial statements of this announcement for the details of borrowings and the respective charge of assets.

The Group's gearing, expressed as a percentage of total interest-bearing bank borrowings to total equity, was 0.6x as at 31 December 2010 as compared to 3.1x as at 31 December 2009. The significant improvement in the gearing was primarily attributable to the inclusion of net proceeds of HK\$831.6 million that the Company raised in the Listing on the Stock Exchange on 16 September 2010.

Working capital

Total inventories as at 31 December 2010 were approximately RMB104.0 million as compared to approximately RMB67.7 million as at 31 December 2009. The average inventory turnover days was maintained at a similar level in 2010 (2010: 25.6 days; 2009: 28.4 days). The Group purchased more ethylene oxide in December 2010 in view of the expected upcoming price increase of ethylene oxide which led to the increase in inventory balance as at 31 December 2010 when comparing to last year.

Average trade and notes receivables turnover days was at 8.6 days (2009: 12.0 days). The decrease in trade and notes receivables turnover days was due to the fact that majority of our ethylene oxide customers are required to pay in advance before delivery in order to secure supply of our products and the sales composition of ethylene oxide as a percentage of total revenue increased to approximately 83.3% of 2010 from 72.0% of 2009.

Average trade and bills payables turnover days was at 68.2 days (2009: 106.2 days). The decrease of trade and bills payable turnover days was attributable to the fact that the Group used more letters of credit with a maturity period of average 90 days to settle our trade payables and then financed the payments through the use of short-term bank borrowings.

APPLICATION OF NET IPO PROCEEDS

Through the Listing on the Stock Exchange on 16 September 2010, the Company issued 265,400,000 new Shares (including the new shares issued under the exercise of the over-allotment options) at the offer price of HK\$3.38 per share and raised estimated net proceeds of approximately HK\$831.6 million, after deducting underwriting commissions, the incentive fee and other fees and expenses payable by the Company in connection with the Listing. The Group has been utilising the net proceeds from the IPO in the manner consistent with that mentioned in the prospectus of the Company dated 3 September 2010 under the

section headed “Use of Proceeds”. The net proceeds utilised for the year ended 31 December 2010 was as follows:

Use of Proceeds	Net IPO Proceeds (HK\$ million)		
	Available	Utilised	Unutilised
3 rd and 4 th phase construction of production facilities of ethylene oxide	557.0	84.1	472.9
Potential acquisitions of existing surfactant manufacturing or related business in the PRC	124.0	-	124.0
Capital contribution & investment in the JV - Sanjiang Honam	99.8	34.6	65.2
Construction of ethylene storage tanks	49.8	42.7	7.1
General working capital	1.0	1.0	-
Total	831.6	162.4	669.2

The unutilised net proceeds have been placed as short term bank deposits or time deposits in licensed banks in Hong Kong or PRC as at 31 December 2010.

CAPITAL COMMITMENTS

As at 31 December 2010, the Group has capital commitments amounted to approximately RMB103.5 million which was primarily related to the procurement of plant and machinery for the constructions of additional production capacities.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had not provided any form of guarantee for any company outside the Group. The Group is not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group employed a total of 459 full time employees. For the year ended 31 December 2010, the employee benefit expense was approximately RMB33.2 million. The Group’s employee benefits included housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions and housing fund contributions. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive remuneration in the form of salaries, bonuses and other allowances.

OUTLOOK

The PRC economy is expected to maintain its growth momentum in the foreseeable future and the demand for our products is expected to continue to grow as a result of the expected increase in domestic demand for household cleansing and cosmetic products benefiting from the continuous economic growth in the PRC as well as the consumption power of PRC citizens. In 2011, the Group will continue to focus primarily on enhancing its production capacity, product variety and quality and operating efficiencies in order to not only capture this continued robust economy growth but also outperform competitors in terms of growth and profitability.

To enhance production capacity

The Group’s production capacity on ethylene oxide will increase by 50% from the existing designed production capacity of 120,000 MT in 2010 to an aggregate designed production capacity of 180,000 MT starting from late March 2011 after the completion of the third phase

construction. The Group expects the third phase production line will be in a position for commercial operation by late March 2011, subject to the approval of relevant authority. As a result of the strong demand for our ethylene oxide product, by the end of January 2011, the Group has received letters of intent from various potential and existing customers expressing their intention to purchase for ethylene oxide with volume which exceeds the expected production volume of the third phase ethylene oxide production line in 2011.

To enhance product variety and quality

The Group continues to enhance product variety and quality through strengthening research and development team, putting more resources on research and development and seeking collaboration with leading universities as to the enhancement of production processes and technologies. The Group is planning to spend an amount of not less than 3% of annual revenue each year to develop new types of surfactants and improve the quality of existing products and production technologies including but not limited to increasing the reaction efficiency of catalyst.

To enhance operating efficiencies

The Group has set out a series of plans to optimize the management structure and operational procedures and processes in order to raise the overall efficiency and save costs. The Group will, including but not limited to freeze headcount in certain departments and reallocate excess employees between departments aiming to reduce the headcount gradually up to 10% through among other things increasing automation in our monitoring process on ethylene oxide production and combining posts with similar responsibilities and functions.

Looking forward, the Group will continue to be benefited from the macro environment and our well-formulated strategies among other things enhancing production capacity, product variety and quality and operating efficiencies and is committed to continuously creating value for shareholders and investors.

DIVIDEND

The Board has not recommended the payment of any interim dividend for the six months ended 30 June 2010.

The Board recommends the payment of a final dividend of HK\$9.5 cents (RMB8.0 cents) per share in respect of the year, representing a total payout of RMB81.9 million and dividend payout ratio of 30.8% for the year ended 31 December 2010.

Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about 31 May 2011 to the shareholders whose names appear on the register of members of the Company as at the close of business on 9 May 2011.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company has adopted the code provisions in the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange as its own code of corporate governance. The Board considers that since the listing of the shares of the Company on the main board of the Stock Exchange on 16 September 2010 and up to the date of this annual results announcement, in the opinion of the Board, the Company has complied with all the code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors and senior management on 24 August 2010. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code since the Listing Date and up to the date of this annual results announcement.

AUDIT COMMITTEE

The Audit Committee was established on 24 August 2010 with written terms of reference as suggested under the CG Code. The Audit Committee has three members, namely Messrs. Shen Kaijun, Wang Wanxu and Li Zhihong, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Shen Kaijun. The primary responsibilities of the Audit Committee include, among others, reviewing and supervising the financial reporting process and internal control system of the Group, nominating and monitoring external auditors and providing advice and comments to the Board.

Since the Listing Date and up to the date of this annual results announcement, the Audit Committee reviewed the interim results of the Group for the six months ended 30 June 2010 and the annual results of the Group for the year ended 31 December 2010, including the accounting principles and practices adopted by the Group, and the Group's internal control functions.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 24 August 2010 with written terms of reference as suggested under the CG Code. The Remuneration Committee has three members, namely Messrs. Li Zhihong, Wang Wanxu and Guan Jianzhong, of whom Messrs. Li Zhihong and Wang Wanxu are independent non-executive Directors and Mr. Guan is the Chairman of the Board and an executive Director. The chairman of the Remuneration Committee is Mr. Li Zhihong. The primary responsibilities of the Remuneration Committee include, among others, evaluating the performance and making recommendation on the remuneration package of the Directors and senior management, and evaluating and making recommendation on the share award scheme of the Company.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

The shares of the Company were listed on the Stock Exchange on 16 September 2010 and neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

ANNUAL GENERAL MEETING

The forthcoming 2011 annual general meeting ("AGM") of the Company will be held at Hong Kong on Monday, 9 May 2011. Notice of the AGM will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 3 May 2011 to Monday, 9 May 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and the right to attend and vote at the forthcoming annual general meeting, all transfers, accompanied by the relevant share certificates must be lodged with the Company's Share Registrars Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4.30 p.m. on Friday, 29 April 2011.

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The principal place of business of the Company in Hong Kong will be changed to Room 601-602, Infinitus Plaza, 199 Des Voeux Road Central, Sheung Wan, Hong Kong with effect from 21 March 2011.

By order of the Board
China Sanjiang Fine Chemicals Company Limited
GUAN Jianzhong
Chairman and Executive Director

People's Republic of China, 21 March 2011

As at the date of this announcement, the Board comprises the *Executive directors*: Mr. GUAN Jianzhong, Ms. HAN Jianhong, Mr. NIU Yingshan, Mr. HAN Jianping and *Independent non-executive directors*: Mr. WANG Wanxu, Mr. SHEN Kaijun and Mr. LI Zhihong.