



**三江化工**

SANJIANG CHEMICAL

**中國三江精細化工有限公司**

**CHINA SANJIANG FINE CHEMICALS COMPANY LIMITED**

(Incorporated in the Cayman Islands with limited liability)

**Stock Code : 2198**

**GLOBAL  
OFFERING**



Sole Global Coordinator



**交銀國際**

BOCOM INTERNATIONAL

Joint Bookrunners, Joint Lead Managers and Joint Sponsors



**交銀國際**

BOCOM INTERNATIONAL

**Daiwa**

Capital Markets

# IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



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)*

## GLOBAL OFFERING

<b>Number of Offer Shares under the Global Offering</b>	<b>: 252,400,000 Shares (subject to the Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>: 25,240,000 Shares (subject to adjustment)</b>
<b>Number of International Placing Shares</b>	<b>: 227,160,000 Shares (subject to adjustment and the Over-allotment Option)</b>
<b>Maximum Offer Price</b>	<b>: HK\$3.38 per Offer Share (payable in full in Hong Kong dollars on application plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% and subject to refund)</b>
<b>Nominal value</b>	<b>: HK\$0.10 per Share</b>
<b>Stock code</b>	<b>: 2198</b>

*Sole Global Coordinator*



*Joint Bookrunners, Joint Lead Managers and Joint Sponsors*



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement among the Company and the Joint Bookrunners (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 8 September 2010 and, in any event, not later than Tuesday, 14 September 2010. The Offer Price will be not more than HK\$3.38 and is currently expected to be not less than HK\$2.38 unless otherwise announced. Applicants for the Offer Shares are required to pay, on application, the maximum Offer Price of HK\$3.38 for each Hong Kong Offer Share together with 1% brokerage, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee, subject to refund if the Offer Price as finally determined should be lower than HK\$3.38.

The Joint Bookrunners (on behalf of the Underwriters, and with the Company's consent) may reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for the lodging of applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of the Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for the Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to apply for Hong Kong Offer Shares" in this prospectus. If, for whatever reason, the Company and the Joint Bookrunners are not able to agree on the Offer Price, the Global Offering will not proceed.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription of the Hong Kong Offer Shares, are subject to termination by the Joint Bookrunners (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set forth in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

3 September 2010

## EXPECTED TIMETABLE<sup>(Note 1)</sup>

Application lists of the Hong Kong Public Offering open<sup>(Note 2)</sup> . . . . . 11:45 a.m. on  
Wednesday, 8 September 2010

Latest time to lodge **WHITE** and **YELLOW** Application Forms . . . . . 12:00 noon on  
Wednesday, 8 September 2010

Latest time to give **electronic application instructions**  
to HKSCC<sup>(Note 3)</sup> . . . . . 12:00 noon on  
Wednesday, 8 September 2010

Latest time to complete electronic applications under  
the **HK eIPO White Form** service through the designated  
website at **www.hkeipo.hk**<sup>(Note 4)</sup> . . . . . 11:30 a.m. on  
Wednesday, 8 September 2010

Latest time to complete payment of **HK eIPO White Form**  
applications by effecting internet banking transfer(s)  
or PPS payment transfer(s) . . . . . 12:00 noon on  
Wednesday, 8 September 2010

Application lists of the Hong Kong Public Offering close . . . . . 12:00 noon on  
Wednesday, 8 September 2010

Expected Price Determination Date<sup>(Note 5)</sup> . . . . . Wednesday, 8 September 2010

(1) Announcement of

- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Placing; and
- the basis of allotment of the Hong Kong Offer Shares

to be published in the South China Morning Post (in English)  
and the Hong Kong Economic Times  
(in Chinese) on or before . . . . . Wednesday, 15 September 2010

(2) Results of allocation of the Hong Kong Public Offering  
(including successful applicants' identification document  
numbers, where appropriate) to be available through  
a variety of channels (see the section headed "**How to  
apply for Hong Kong Offer Shares – Publication  
of results**") from . . . . . Wednesday, 15 September 2010

A full announcement of the Hong Kong Public Offering  
containing (1) and (2) above will be published on the  
Company's website at **www.jxsjchem.com** and the website of  
the Stock Exchange at **www.hkex.com.hk** from . . . . . Wednesday, 15 September 2010

Despatch of share certificates in respect of wholly or  
partially successful applications on or before<sup>(Note 6)</sup> . . . . . Wednesday, 15 September 2010

Despatch of refund cheques in respect of wholly or  
partially unsuccessful applications on or before<sup>(Note 6)</sup> . . . . . Wednesday, 15 September 2010

Dealings in Shares on the Stock Exchange to commence on . . . . . Thursday, 16 September 2010

## EXPECTED TIMETABLE<sup>(Note 1)</sup>

### Notes:

- (1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including conditions of the Global Offering, are set forth in the section headed “Structure of the Global Offering” in this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 8 September 2010, the application lists will not open and close on that day. See the section headed “How to apply for Hong Kong Offer Shares – Effect of bad weather on the opening of the application lists” in this prospectus.
- (3) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to apply for Hong Kong Offer Shares – Applying by giving electronic application instructions to HKSCC” in this prospectus.
- (4) You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) If, for whatever reason, the Offer Price is not agreed by our Company and the Joint Bookrunners (on behalf of the Underwriters) on or before Tuesday, 14 September 2010, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) Refund cheques or e-Auto Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications if the Offer Price is determined at less than the price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.

Applicants who apply via **HK eIPO White Form** or with **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their application forms that they wish to collect refund cheques, if any and (where applicable) share certificates in person from our Company’s Hong Kong Share Registrar may collect refund cheques, if any and (where applicable) share certificates in person from our Company’s Hong Kong Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 15 September 2010. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations’ chops. Identification and authorisation documents (where applicable) acceptable to Tricor Investor Services Limited must be produced at the time of collection.

Applicants who apply with **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their application forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants.

Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant application forms. Further information is set out in the section headed “How to apply for Hong Kong Offer Shares – Refund of application monies” in this prospectus.

**Share certificates will only become valid certificates of title provided that, no later than 8:00 a.m. on the Listing Date, the Global Offering has become unconditional and neither the Hong Kong Underwriting Agreement nor the International Placing Agreement has been terminated in accordance with its terms. If any of the Underwriting Agreements does not become unconditional or is terminated in accordance with the terms therein, our Company will make an announcement as soon as possible. No dealings should take place in the Offer Shares prior to the commencement of dealings in the Shares on the Stock Exchange. Investors who trade the Offer Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.**

# CONTENTS

This prospectus is issued by China Sanjiang Fine Chemicals Company Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering.

	<i>Page</i>
<b>Expected timetable</b> .....	i
<b>Contents</b> .....	iii
<b>Summary</b> .....	1
<b>Definitions</b> .....	14
<b>Glossary of technical terms</b> .....	26
<b>Risk factors</b> .....	31
<b>Forward-looking statements</b> .....	51
<b>Information about this prospectus and the Global Offering</b> .....	52
<b>Directors and parties involved in the Global Offering</b> .....	61
<b>Corporate information</b> .....	65
<b>Industry overview</b> .....	68
<b>History and reorganisation</b> .....	86

# CONTENTS

	<i>Page</i>
<b>Business</b> .....	119
<b>Relationship with controlling shareholders</b> .....	168
<b>Connected transactions</b> .....	171
<b>Directors and senior management</b> .....	183
<b>Waivers from strict compliance with Listing Rules</b> .....	190
<b>Share capital</b> .....	191
<b>Substantial Shareholders</b> .....	194
<b>Financial information</b> .....	195
<b>Future plans and use of proceeds</b> .....	249
<b>Underwriting</b> .....	251
<b>Structure of the Global Offering</b> .....	260
<b>How to apply for Hong Kong Offer Shares</b> .....	269
<b>Appendix I – Accountants’ report</b> .....	I-1
<b>Appendix II – Unaudited pro forma financial information</b> .....	II-1
<b>Appendix III – Profit estimate</b> .....	III-1
<b>Appendix IV – Property valuation</b> .....	IV-1
<b>Appendix V – Summary of principal PRC laws and regulations relating to our business</b> .....	V-1
<b>Appendix VI – Summary of the Constitution of the Company and Cayman Islands Company Law</b> .....	VI-1
<b>Appendix VII – Statutory and general information</b> .....	VII-1
<b>Appendix VIII – Documents delivered to the Registrar of Companies and available for inspection</b> .....	VIII-1

## SUMMARY

**This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide whether to invest in our Shares.**

**There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the section headed “Risk factors”. You should read this section carefully before you decide whether to invest in our Shares.**

## OVERVIEW

We are a manufacturer and supplier of consumer chemicals and their ingredients, namely ethylene oxide and AEO surfactants which are the core components for household cleansing and cosmetic products. According to the SAI Report, we are the largest privately-owned manufacturer and supplier of both ethylene oxide and AEO surfactants in China in terms of production volume in 2009. Ethylene oxide is an ethylene derivative product and is mainly used for production of surfactants, ethylene glycol, ethanolamines and glycol ethers in China. Our AEO surfactants are mainly used in the manufacture of household cleansing agents such as liquid detergents, cosmetics and ointments products.

In addition to ethylene oxide and AEO surfactants, we also manufacture and supply other types of surfactants products. We also engage in the provision of ethylene oxide and surfactants processing services to our customers as well as the production and supply of other chemical products such as ethylene glycol and industrial gases, namely oxygen, nitrogen and argon.

According to the SAI Report, in terms of market share by production volume, our share in China's ethylene oxide market was approximately 11% in both 2007 and 2008 and increased to approximately 19% in 2009; while our share in China's AEO surfactants market increased from approximately 7% in both 2007 and 2008 to approximately 13% in 2009. Our aggregate designed annual production capacities of ethylene oxide and surfactants were approximately 120,000 MT and 218,000 MT respectively as of the Latest Practicable Date.

We are able to secure a steady and reliable supply of raw materials due to our vertically integrated production process and our established relationship with our suppliers since 2007. For the manufacture of surfactants, we manufacture all the ethylene oxide, the principal raw material for our surfactant production, in-house, and do not have to source ethylene oxide from external suppliers. For the manufacture of ethylene oxide, we source ethylene, the principal raw material for production, from reputable companies in Japan, with whom we have established good business relationship since 2007. In addition, our ethylene storage tank provides a buffer for us to absorb short term price fluctuation of ethylene. Our imported ethylene is stored in our ethylene storage tank which has a storage capacity of approximately 22,000 cubic metres or effectively 12,075 MT of ethylene. Such ethylene storage tank was the largest in China in terms of storage capacity as of 30 April 2010 according to the SAI Report.

We believe that, given the strict requirements on the establishment of new ethylene oxide manufacturing facilities and manufacture of ethylene oxide under the PRC laws and regulations, in particular, the requirements on new entrants to the ethylene oxide manufacturing industry, the entry barrier for the ethylene oxide manufacturing industry is high and that potential competitions from new entrants are limited.

## SUMMARY

We have been generating most of our revenue from the sales of ethylene oxide and surfactants. During the Track Record Period, our revenue was approximately RMB876.8 million, RMB952.8 million, RMB1,285.5 million and RMB567.5 million, respectively, and our net profit attributable to equity holders of the parent was approximately RMB147.4 million, RMB139.1 million, RMB242.1 million and RMB78.7 million, respectively. Between 2007 and 2009, the net profit attributable to equity holders of the parent grew at a CAGR of approximately 28.2%. During the same period, we saw continued growth in both our ethylene oxide and surfactant businesses, in particular our surfactant business, where revenue contribution had increased both in absolute amount and as percentage of total revenue. Sales of ethylene oxide as a percentage of our total revenue gradually decreased from approximately 90.7% in 2007 to approximately 87.0% in 2008 and then to approximately 72.0% in 2009 as our Group began to develop our surfactant business. Sales of surfactants as a percentage of our total revenue gradually increased from approximately 3.5% in 2007 to approximately 4.9% in 2008 and then to approximately 16.8% in 2009. For the four months ended 30 April 2010, sales of ethylene oxide as a percentage of our total revenue increased to approximately 83.2% while the sales of surfactants as a percentage of our total revenue decreased to approximately 11.1% as we increased our sales of ethylene oxide and allocated more self-manufactured ethylene oxide to provide surfactants processing services. All our customers are either manufacturers or trading companies located in the PRC. Further details of the breakdown of our customer composition are set forth in the section headed “Business – Sales and marketing – Customers” in this prospectus.

### OUR COMPETITIVE STRENGTHS

We believe that our success to date and potential for future growth are attributable to our competitive strengths, which include the following:

- We have maintained a leading market position and have been benefiting from the rapid market growth.
- We manage to increase our profitability through vertical integration and optimisation of our product mix.
- The strategic location of our production base allows convenient transportation of our raw materials and products at low transportation costs.
- We are able to secure stable and reliable supply of raw materials to ensure stable production by our Group.
- High entry barrier to the ethylene oxide manufacturing industry thereby limiting competition from new entrants.
- We maintain a strong relationship with quality customers.
- We have an experienced and dedicated management team.

## SUMMARY

### OUR BUSINESS STRATEGIES

We aim to maintain and further strengthen our position as the largest privately-owned manufacturer and supplier of both ethylene oxide and AEO surfactants in China and to maximise shareholders' value, by pursuing the following strategies:

- Strengthen our leading market position in China through expansion of our production capacity.
- Expand our product coverage and functionality, improve our product quality and further maximise our profitability.
- Selectively seek acquisition opportunities.
- Improve production efficiency and reduce production costs.
- Increase raw material storage capacity by constructing new ethylene storage tank to accommodate increasing production capacity.

### RISK FACTORS

We believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorised into: (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to conducting business in China; and (iv) risks relating to the Global Offering and our Shares. A detailed discussion of the risk factors are set forth in the section headed "Risk factors" in this prospectus. The following is a list of the risk factors:

#### Risks relating to our business

- We rely heavily on the sales of ethylene oxide and surfactants as our major source of revenue. Any change in demand may adversely affect our revenue and profitability.
- Any shortage in supply of raw materials or fluctuation in the prices of our raw materials may adversely affect our profit margins and results of operations.
- Our surfactant production may be restricted by our in-house supply of ethylene oxide.
- We experienced a decrease in gross profit margin for the four months ended 30 April 2010.
- Our expansion plans may not be completed as planned, may exceed our original budgets and may not achieve the intended economic results or commercial viability.
- We require substantial capital to expand our business, any failure to obtain sufficient capital or adequate finance may adversely affect our expansion plans and growth.
- Our business strategies are subject to significant business, economic and competitive uncertainties and contingencies in the market.
- We may not be able to manage our growth.

## SUMMARY

- Our business prospects may be difficult to evaluate due to our short operating history.
- We are subject to risks in relation to the operation of our production facilities.
- We rely heavily on our major customers. Any significant reduction in sales to or the loss of any of our major customers could materially and adversely affect our profitability and results of operations.
- Change in our customer mix may adversely affect our revenue and results of operations.
- We purchase our production technology, equipment and components primarily from a limited number of suppliers.
- We may not be able to successfully and profitably develop, produce and market new products or improve the quality of our existing products.
- We rely on certain key personnel and the hiring and retaining of other qualified personnel to maintain our continued success.
- Our insurance may not be sufficient to cover the risks connected with our operations and potential losses.
- Any interruption, shortage of utilities or fluctuation in utility prices may affect our business operations and financial condition.
- Our controlling shareholder has the ability to exercise substantial control over us, which may influence our business in ways which may not be in the best interests of our other Shareholders.
- We incurred net current liabilities as at 31 December 2007, 2008, 2009, 30 April 2010 and 31 July 2010.
- We have not obtained legal titles to some of the properties we own.
- Our operations are subject to risks of mortgages on our real estate properties, land use rights and production facilities.
- We did not fully comply with PRC employee social welfare contribution regulations.
- We may not be successful in identifying, acquiring or merging with suitable business targets, which could adversely affect our growth and revenue.

## SUMMARY

### **Risks relating to the industry in which we operate**

- We face competition from domestic companies, which may affect our market share and profit margins.
- Fluctuations in the prices of crude oil and refined products may adversely impact our profit margins and results of operations.
- Our operations may be adversely affected by the existing or future PRC laws and regulations.

### **Risks relating to conducting business in China**

- Changes in China's economic, political and social conditions and government policies may have an adverse effect on us.
- Any significant change in, or promulgation of, laws and regulations may increase our costs of production, and our failure to comply with any of these developments could result in legal liabilities for us.
- The legal system of the PRC is not fully developed, and there are inherent uncertainties which may affect the protection afforded to our business and our Shareholders.
- The global financial markets have experienced significant deterioration and volatility in the past two years, which have negatively impacted the global economy, any further downturn may adversely affect our financial condition and results of operations.
- Changes in foreign exchange regulations and fluctuations in the value of the Renminbi could have an adverse effect on our financial results and our ability to distribute dividends.
- It may be difficult to effect service of process or to enforce foreign judgments in the PRC.
- The outbreak of any severe contagious diseases, natural disasters, acts of war, political unrest and other related events in the PRC, if uncontrolled, could adversely affect our business and results of operations.

### **Risks relating to the Global Offering and our Shares**

- There has been no prior public market for our Shares, and an active trading market may not develop after Global Offering.
- The Offer Price may not be indicative of prices that will prevail in the trading market and such market prices and the liquidity of our Shares following the Global Offering could be volatile.

## SUMMARY

- Our profit estimate only covers the six months ended 30 June 2010 and may not necessarily give a fair reflection of our full year financial results in 2010.
- We rely on dividend payments from our subsidiaries located in the PRC for funding our dividend payments, servicing our indebtedness and meeting our working capital and other capital needs.
- Our current dividend policy and our historical dividend payment should not be taken as an indication of our future ability to pay dividends and we may not be able to pay any dividends in the future.
- We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to the PRC and any provinces, cities or regions thereof contained in this prospectus, the reliability of which cannot be assumed or assured.
- Forward looking statements contained in this prospectus are subject to risks and uncertainties.
- Any future sale of our Shares by our existing Shareholders (including the Independent Investors) could have an adverse effect on the market price of our Shares.
- The Offer Price per Offer Share is higher than the net tangible book value per Share, and, consequently, purchasers of our Shares will incur immediate dilution.
- You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or disseminated through other media relating to us and/or the Global Offering, some of which may not be consistent with the information contained in this prospectus.

# SUMMARY

## SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table presents a summary of our consolidated statements of income for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2009 and 2010, respectively, and condensed consolidated statements of financial position as at 31 December 2007, 2008 and 2009 and 30 April 2010, respectively. The summary of our consolidated statements of income and condensed consolidated statements of financial position are derived from, and should be read in conjunction with, our audited financial statements included in the Accountants' Report set forth in Appendix I to this prospectus. Our financial statements have been prepared in accordance with HKFRS.

### Consolidated statements of income

	Year ended 31 December			Four months ended	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
REVENUE	876,774	952,847	1,285,533	368,423	567,483
Cost of sales	(667,343)	(728,345)	(929,212)	(244,725)	(455,365)
Gross profit	209,431	224,502	356,321	123,698	112,118
Other income and gains	20,200	29,401	21,204	1,540	4,526
Selling and distribution cost	(757)	(3,005)	(2,966)	(739)	(523)
Administrative expenses	(22,696)	(30,827)	(37,473)	(9,420)	(10,774)
Other expenses	(1,291)	(2,000)	(336)	(70)	(370)
Finance costs	(34,360)	(36,736)	(32,915)	(12,673)	(5,898)
PROFIT BEFORE TAX	170,527	181,335	303,835	102,336	99,079
Income tax expense	(839)	(19,500)	(43,673)	(15,765)	(20,383)
PROFIT FOR THE YEAR/PERIOD	<u>169,688</u>	<u>161,835</u>	<u>260,162</u>	<u>86,571</u>	<u>78,696</u>
Attributable to:					
Equity holders of the parent	147,358	139,081	242,075	81,525	78,668
Non-controlling interests	<u>22,330</u>	<u>22,754</u>	<u>18,087</u>	<u>5,046</u>	<u>28</u>
	<u>169,688</u>	<u>161,835</u>	<u>260,162</u>	<u>86,571</u>	<u>78,696</u>

## SUMMARY

### Condensed consolidated statements of financial position

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	856,225	1,034,690	1,020,083	1,056,935
Current assets	712,662	737,110	616,895	716,476
Current liabilities	<u>1,267,245</u>	<u>1,280,449</u>	<u>1,280,458</u>	<u>1,343,476</u>
Net current liabilities	(554,583)	(543,339)	(663,563)	(627,000)
Non current liabilities	<u>80,341</u>	<u>153,110</u>	<u>122,322</u>	<u>146,916</u>
Net assets	<u>221,301</u>	<u>338,241</u>	<u>234,198</u>	<u>283,019</u>
Total equity	<u>221,301</u>	<u>338,241</u>	<u>234,198</u>	<u>283,019</u>

### SUMMARY OF HISTORICAL OPERATING DATA

The following table presents our total revenue and gross profit margin of our major products for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2009 and 2010, respectively.

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
				(unaudited)	
<b>Revenue</b>					
Sales of ethylene oxide	795.2	829.3	925.1	231.7	472.0
Sales of surfactants	30.9	46.8	216.6	67.1	63.1
Processing services	3.4	9.7	66.4	54.2	5.2
Others <sup>(Note)</sup>	<u>47.3</u>	<u>67.0</u>	<u>77.4</u>	<u>15.4</u>	<u>27.2</u>
Total	<u>876.8</u>	<u>952.8</u>	<u>1,285.5</u>	<u>368.4</u>	<u>567.5</u>

*Note:* Others mainly comprised of sales from ethylene glycol, ethylene, nitrogen, oxygen and argon.

## SUMMARY

	Year ended 31 December			Four months ended	
	2007	2008	2009	30 April	2010
				2009	
				(unaudited)	
<b>Gross profit margin</b>					
Ethylene oxide	23.1%	25.0%	29.9%	36.5%	20.2%
Surfactants	27.5%	15.2%	18.1%	11.2%	15.2%

With respect to our ethylene oxide sales business, our gross profit margin increased from 23.1% in 2007 to 29.9% in 2009, followed by a decrease in gross profit margin to approximately 20.2% during the four months ended 30 April 2010. The increase in gross profit margin in 2008 was primarily due to the fact that the increase in average selling price outpaced the increase in cost. The increase in gross profit margin in 2009 was primarily due to the fact that the extent of the decrease in average cost of ethylene was larger than the decrease in average selling price. The decrease in gross profit margin during the four months ended 30 April 2010 was primarily attributable to the increase in the cost of our principal raw materials, ethylene, as a result of the increase in the international crude oil prices during the period. Please refer to the subsections headed “Principal components of results of operations – Gross profit” and “Analysis of results of operations – Four months ended 30 April 2010 compared with the four months ended 30 April 2009” under the section headed “Financial information” in this prospectus for other supplementary factors contributing to the gross profit margin performance during the same period.

With respect to surfactants sales business, our gross profit margin decreased from 27.5% in 2007 to 18.1% in 2009, followed by an increase in gross profit margin from 11.2% for the four months ended 30 April 2009 to 15.2% for the same period in 2010, the increase was primarily due to the increase in average selling price of surfactants outpaced the increase in cost.

### PROFIT ESTIMATE FOR THE SIX MONTHS ENDED 30 JUNE 2010<sup>(Note 1)</sup>

Unaudited estimated consolidated net profit attributable  
to equity holders of the parent for the six months ended  
30 June 2010 . . . . . Not less than RMB109 million  
(equivalent to approximately HK\$124 million)

Unaudited pro forma estimated earnings per Share<sup>(Note 2)</sup> . . . . . Not less than RMB0.11  
(equivalent to approximately HK\$0.13)

#### Notes:

1. All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.
2. The unaudited pro forma estimated earnings per Share is calculated based on the unaudited estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 assuming that we had been listed since 1 January 2010 and a total of 1,009,303,000 Shares were issued and outstanding during the entire year. This calculation is based on the assumption of 252,400,000 Shares expected to be issued pursuant to the Global Offering. The unaudited estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 is based on the audited consolidated financial statements for the four months ended 30 April 2010 and an estimate of the remaining two months ended 30 June 2010. The Directors have undertaken to the Stock Exchange that our interim report for the six months ended 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules. The unaudited estimated consolidated net profit attributable to equity holders of the parent and unaudited pro forma estimated earnings per Share is translated at the exchange rate of HK\$1 = RMB0.8756.

## SUMMARY

### STATISTICS OF THE GLOBAL OFFERING <sup>(Note 1)</sup>

	<b>Based on Offer Price of HK\$2.38</b>	<b>Based on Offer Price of HK\$3.38</b>
Market capitalisation of our Company <sup>(Note 2)</sup>	HK\$2,402.14 million	HK\$3,411.44 million
Historical pro-forma fully diluted price/earnings multiple <sup>(Note 3)</sup>	8.7 times	12.3 times
Unaudited pro forma adjusted net tangible asset value per Share <sup>(Note 4)</sup>	HK\$0.84 (RMB0.74)	HK\$1.08 (RMB0.95)

*Notes:*

- (1) Our Shares being offered in the Global Offering will rank pari passu with all Shares in issue or to be issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus, except the Capitalisation Issue.
- (2) The calculation of market capitalisation is based on 1,009,303,000 Shares expected to be in issue immediately upon completion of the Global Offering and the Capitalisation Issue. The market capitalisation does not take into account any Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme.
- (3) The calculation of the historical price/earnings multiple on a pro forma fully diluted basis is based on the earnings per Share for the year ended 31 December 2009 on a pro forma fully diluted basis at the respective Offer Price of HK\$2.38 and HK\$3.38, assuming that the Over-allotment Option will not be exercised.
- (4) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the section headed “Unaudited pro forma financial information” in Appendix II to this prospectus and based on 1,009,303,000 Shares expected to be in issue immediately upon completion of the Global Offering and the Capitalisation Issue but does not take into account any Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme and the respective Offer Price of HK\$2.38 and HK\$3.38.

### DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. Dividend payments are discretionary and will be subject to the recommendation of our Board and approval of our Shareholders in general meetings or, in the case of interim dividends, subject to the approval of our Board in accordance with our Articles of Association. Our dividend payment amounts, if any, for a given year will be dependent upon our future results of operations, financial condition, capital requirements, legal and contractual restrictions and other factors that our Board may deem relevant. In addition, our controlling shareholder, subject to our Articles of Association, may influence our dividend policy.

## SUMMARY

Considering our financial position, we currently intend, in the absence of any circumstances that might reduce the amount of distributable profits whether by losses or otherwise, to distribute dividends for each of the financial years ending 31 December 2010 and 2011 that would amount in total to not less than 30% of the net profit available for distribution from ordinary activities attributable to equity holders of the parent for each of the relevant financial years. Such intention does not amount to any guarantee or representation or indication that our Company must or will declare and pay a dividend in such manner or declare and pay any dividend at all. After completion of the Global Offering, priority will be given to retained earnings in order to facilitate capital growth and expansion of our Group. Cash dividends on the Shares, if any, will be paid in HK dollars.

### INVESTMENT IN OUR GROUP

There were the following pre-IPO investments in our Group:

In May 2010, BOCOM Holdings, Chemwin Limited, UVM Venture Investments Limited, CITIC International Assets Management Limited, Rich Honour Holdings Limited and Central Harvest Holdings Company Limited, being the Preference Shares Investors, subscribed for an aggregate of 2,000 convertible preference shares of US\$10,000 each in Sure Capital convertible into Shares representing approximately 11.65% of the total issued share capital of the Company immediately prior to the completion of the Global Offering and the Capitalisation Issue for an aggregate consideration of US\$20 million.

In December 2009, CITIC International Assets Management Limited, Creation One International Limited, Chemwin Limited, Rich Honour Holdings Limited and BOCOM Holdings, being the Ordinary Shares Investors, subscribed for an aggregate of 7,920 Old Shares for an aggregate consideration of US\$10 million.

In January 2010, Global Fortune Muster Investment Ltd., Hanbest Investment Limited, Strength High Group Limited, Million Wisdom International Limited, Ever Raise International Limited, Gold Dynamic Asia Limited and Supra Grade Holdings Limited, being the New Investors, purchased from Sure Capital an aggregate of 29,832 Old Shares at an aggregate consideration of US\$37,666,666.68.

In May 2010, Pasicue, a nominee of Tengfei Gongmao holding the Shares on trust on its behalf, purchased 3,888 Old Shares from Sure Capital at a consideration of US\$1,464,301.90. These Old Shares were subsequently transferred by Tengfei Gongmao to Mr. Teng Guoping.

Immediately upon completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), the Independent Investors will hold an aggregate of 297,528,000 Shares, representing approximately 29.48% of the issued share capital of the Company.

## SUMMARY

Each of the Independent Investors is an Independent Third Party, including BOCOM Holdings. BOCOM Holdings held approximately 5.83% of the issued share capital of the Company immediately before completion of the Capitalisation Issue and the Global Offering and will hold approximately 4.37% of the issued share capital of the Company immediately following completion of the Capitalisation Issue and the Global Offering (but without taking into account any Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option). BOCOM Asia, being a subsidiary of BOCOM Holdings, is not regarded as an independent sponsor to the Global Offering for the purpose of Rule 3A.07 of the Listing Rules.

Please refer to the section headed “History and reorganisation – Investment in our Group” in this prospectus for further information on the pre-IPO investment in our Group.

### USE OF PROCEEDS

The aggregate amount of the net proceeds from the Global Offering is estimated to be approximately HK\$672.7 million, excluding the exercise of the Over-allotment Option and after deducting underwriting fees and other expenses payable by our Company in connection with the Global Offering, assuming an Offer Price of HK\$2.88 per Share, which is the mid-point of the indicative range of the Offer Price of HK\$2.38 to HK\$3.38 per Share.

We intend to use the net proceeds of the Global Offering to fund the growth of our business and to upgrade our plant and equipment at our existing facilities. We plan to use the net proceeds of the Global Offering as follows:

- up to 67%, or approximately HK\$450 million, will be used for the third and fourth phase construction of production facilities of ethylene oxide with designed annual production capacities of 60,000 MT and 100,000 MT respectively, as well as the construction, equipment purchase and operation in connection with new projects that we are able to identify in the future;
- up to 15%, or approximately HK\$100 million, will be used for potential acquisitions of existing surfactant manufacturing or related business in the PRC to further strengthen our leading market position in China;
- up to 12%, or approximately HK\$80 million, will be used for capital contribution and investment in Sanjiang Honam, a sino-foreign joint venture company jointly established and controlled by Honam Petrochemical Corp. (湖南石油化學株式會社) and us. The capital injected will be used for the construction of production facilities of Sanjiang Honam to produce ethylene oxide;
- up to 6%, or approximately HK\$40 million, will be used for construction of ethylene storage tanks with a total storage capacity of approximately 22,000 cubic metres; and
- the remaining balance, or approximately HK\$3 million, will be used for general working capital purposes.

## SUMMARY

Assuming the Over-allotment Option is not exercised, the aggregate amount of the net proceeds from the Global Offering is estimated to be approximately HK\$793.9 million if the Offer Price is to be fixed at the high-end of the indicative Offer Price range; and approximately HK\$551.6 million if the Offer Price is to be fixed at the low-end of the indicative Offer Price range.

The above allocation of the net proceeds from the Global Offering will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower point in the indicative Offer Price range. If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds to our Company from the offering of these additional Shares will be approximately HK\$104.7 million, after deducting underwriting commissions (excluding any incentive fees that we may decide to pay to the Joint Bookrunners and estimated expenses payable), assuming an Offer Price of HK\$2.88 per Share, which is the mid-point of the indicative Offer Price range of the Offer Price of HK\$2.38 to HK\$3.38 per Share. Any additional proceeds received from any exercise of the Over-allotment Option will also be allocated to the above uses on a pro rata basis.

Pending the use of the net proceeds from the Global Offering for the purposes described above, and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong. When we apply the net proceeds for the purposes described above, we will remit the net proceeds into China either by means of making contributions to newly-established PRC subsidiaries, increasing the registered share capital of our PRC subsidiaries or in the form of shareholder's loans to our PRC subsidiaries, all of which will be subject to the approval of and/or registration with competent authorities in accordance with relevant PRC laws and regulations. Until we start to remit the net proceeds of the Global Offering into China, we will not be required to obtain any approval, consent or registration to remit net proceeds into China.

## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. Certain other terms are explained in the section headed “Glossary of technical terms” in this prospectus.*

“Affiliate”	in relation to a body corporate, any subsidiary undertaking or parent
“Application Form(s)”	White Application Form(s), Yellow Application Form(s) and Green Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles” or “Articles of Association”	the articles of association of our Company adopted on 24 August 2010, and as amended from time to time
“Board”	the Board of Directors of our Company
“BOCOM Asia”	BOCOM International (Asia) Limited (交銀國際(亞洲)有限公司), licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“BOCOM Holdings”	BOCOM International Holdings Company Limited (交銀國際控股有限公司), a company incorporated in Hong Kong and an Independent Third Party other than being an Ordinary Shares Investor and a Preference Shares Investor
“BOCOM Securities”	BOCOM International Securities Limited (交銀國際證券有限公司), licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO
“Business Day”	a day which is not a Saturday, a Sunday or a public holiday in Hong Kong and on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 756,748,530 Shares upon capitalisation of an amount of HK\$75,674,853 standing to the credit of the share premium account of our Company referred to in the section headed “Further information about our Company – Resolutions in writing of our Shareholders passed on 24 August 2010” in Appendix VII to this prospectus
“Capitol International”	Capitol International Limited (佳都國際有限公司), a company incorporated in Hong Kong with limited liability on 18 July 2003, and a wholly-owned subsidiary of our Company

## DEFINITIONS

“Cayman Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CIT”	Corporate Income Tax of the PRC
“CIT Law”	Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法), as promulgated by the SCNPC on 16 March 2007 and effective on 1 January 2008, and the Rules for Implementation of Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), as promulgated by the State Council on 6 December 2007 and effective on 1 January 2008
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended and supplemented from time to time
“Company”, “our Company”, “we” or “us”	China Sanjiang Fine Chemicals Company Limited (中國三江精細化工有限公司), formerly known as Full Wealth Limited (滿裕有限公司), a company incorporated in the Cayman Islands on 30 January 2009 as an exempted company with limited liability
“Company Law”	the Company Law of the PRC (中華人民共和國公司法), as promulgated by the SCNPC on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, being Sure Capital and Mr. Guan
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)

## DEFINITIONS

“Daiwa”	Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司), licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Director(s)”	director(s) of our Company or any of them
“GAQSIQ”	the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家品質監督檢驗檢疫總局)
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Green Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses operated by its present subsidiaries or (as the case may be) its predecessor
“Guanlang”	嘉興市港區工業管廊有限公司 (Jiaxing Port Area Industrial Guanlang Co., Ltd.*), a company established in the PRC with limited liability on 29 September 2005, and an indirect subsidiary of our Company in which we hold 83.85% shareholding interest with the remaining 16.15% shareholding interest held by Zhapu Construction
“Hangzhou Haoming”	杭州浩明投資有限公司 (Hangzhou Haoming Investment Co., Ltd.*) (formerly known as 杭州蕭山三江精細化工有限公司 (Hangzhou Xiaoshan Sanjiang Fine Chemicals Co., Ltd.)) and 蕭山市三江精細化工有限公司 (Xiaoshan City Sanjiang Fine Chemicals Co., Ltd.*), a company established in the PRC with limited liability on 26 March 1998, and owned as to 60% by Mr. Guan and 20% by each of Ms. Han and Mr. Han Jianping, our executive Directors, respectively
“Hangzhou Sanjiang”	杭州三江印染助劑有限公司 (Hangzhou Sanjiang Textile Auxiliaries Co., Ltd.*), a company established in the PRC with limited liability on 1 April 2010, and an indirect wholly-owned subsidiary of our Company

## DEFINITIONS

“HKD”, “HK\$” or “HK dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form Service Provider at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 25,240,000 Shares being initially offered by our Company at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage fee of 1%, Stock Exchange trading fee of 0.005%, and SFC transaction levy of 0.004%) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering – The Hong Kong Public Offering” in this prospectus
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus, being the underwriters of the Hong Kong Public Offering

## DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated 2 September 2010 relating to the Hong Kong Public Offering and entered into by, among others, our executive Directors, our controlling shareholders, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Hong Kong Underwriters and us
“Independent Investors”	the Ordinary Shares Investors, the Preference Shares Investors, the New Investors and Pasicue
“Independent Third Part(y)(ies)”	a party or parties that is or are independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive, substantial shareholders of our Company, our subsidiaries or any of their respective associates
“Independent Valuer”	DTZ Debenham Tie Leung Limited, an independent property valuer
“Industrial Restructuring Catalogue”	the Guideline Catalogue for Industrial Restructuring (2005 Version) (《產業結構調整指導目錄(2005年本)》) promulgated by the NDRC and effective on 2 December 2005
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters with professional and institutional investors at the Offer Price, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Agreement”	the underwriting agreement relating to the International Placing to be entered into on or about 8 September 2010 by, among others, our executive Directors, our controlling shareholders, the Sole Global Coordinator, the Joint Bookrunners, the International Underwriters and us
“International Placing Shares”	the 227,160,000 Shares initially being offered by our Company for subscription under the International Placing together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option
“International Underwriters”	the group of underwriters led by the Joint Bookrunners, which are expected to enter into the International Placing Agreement to underwrite the International Placing
“ISO”	International Organisation for Standardisation

## DEFINITIONS

“Jiahua”	浙江嘉化集團股份有限公司 (Zhejiang Jiahua Group Co., Ltd.*), a joint stock company established in the PRC with limited liability on 15 March 2000 and a non-wholly owned subsidiary of Hangzhou Haoming
“Jiahua Industrial Park Co”	浙江嘉化工業園投資發展有限公司 (Zhejiang Jiahua Industrial Park Investment and Development Co., Ltd.*), a company established in the PRC with limited liability on 20 January 2001 and a non-wholly owned subsidiary of Jiahua
“Jianghao Investment”	嘉興港區江浩投資發展有限公司 (Jiaxing Port Area Jianghao Investment Development Co., Ltd.*), a company established in the PRC with limited liability on 29 September 2009 and entirely owned by Mr. Guan and Ms. Han
“Jianghao Property”	嘉興江浩置業有限公司 (Jiaxing Jianghao Property Co., Ltd.*), a company established in the PRC with limited liability on 26 June 2009, and an indirect wholly-owned subsidiary of our Company until 24 December 2009 when it was disposed of by our Group to Jianghao Investment as part of the Reorganisation
“Jiaxing Production Plant”	the production plant located at the Jiaxing Site
“Jiaxing Rewang”	嘉興興港熱網有限公司 (Jiaxing Xinggang Rewang Co., Ltd.*), a limited liability company established in the PRC on 28 March 2002 and is owned as to 40% by Jiahua Industrial Park Co, 40% by Zhapu Construction and 20% by an Independent Third Party
“Jiaxing Site”	the production site located at Pinghai Road West, Jiaxing Port Economic Development Zone, Jiaxing of the Zhejiang Province
“Joint Bookrunners” or “Joint Lead Managers”	BOCOM Securities and Daiwa
“Joint Sponsors”	BOCOM Asia and Daiwa
“Land Catalogue”	the Notice on the Implementation of the Catalogue of Restricted Uses of Land (2006 Version) and the Catalogue of Prohibited Uses of Land (2006 Version) (《關於發佈實施〈限制用地項目目錄(2006年本)〉和〈禁止用地項目目錄(2006年本)〉的通知》) jointly promulgated by the Ministry of Land and Resources of the PRC and the NDRC and effective on 12 December 2006
“Latest Practicable Date”	27 August 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication

## DEFINITIONS

“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about Thursday, 16 September 2010, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, adopted on 30 January 2009, as amended from time to time
“Ministry of Commerce”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Guan”	Mr. Guan Jianzhong, our executive Director, chairman, founder and controlling shareholder
“Ms. Han”	Ms. Han Jianhong, our executive Director and founder
“MT”	metric tonnes
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New Investors”	Global Fortune Muster Investment Ltd. (祥聚投資有限公司), Hanbest Investment Limited (凱佳投資有限公司), Strength High Group Limited, Million Wisdom International Limited (萬聰國際有限公司), Ever Raise International Limited (常展國際有限公司), Gold Dynamic Asia Limited (金動力亞洲有限公司) and Supra Grade Holdings Limited (越級控股有限公司), all being Independent Third Parties
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) at which the Shares are to be issued pursuant to the Global Offering, to be determined as described in the section headed “Structure of the Global Offering – Pricing of the Global Offering” in this prospectus

## DEFINITIONS

“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares issued and allotted pursuant to the exercise of the Over-allotment Option
“Old Share(s)”	ordinary shares in the capital of our Company with a nominal value of US\$1 each prior to the increase in and cancellation of our authorised share capital as more particularly described in the paragraph headed “Changes in share capital of the Company” in Appendix VII to this prospectus
“Ordinary Shares Investors”	BOCOM Holdings, CITIC International Assets Management Limited (中信國際資產管理有限公司), Creation One International Limited (創一國際有限公司), Chemwin Limited and Rich Honour Holdings Limited (諾信控股有限公司), all being Independent Third Parties
“Over-allotment Option”	the option expected to be granted by us to the Sole Global Coordinator (on behalf of the International Underwriters), pursuant to the International Placing Agreement, to require us to issue and allot up to an aggregate of 37,860,000 additional Shares at the Offer Price solely to cover over-allocations in the International Placing, if any, exercisable at any time from the date of the International Placing Agreement until the 30th day from the last day for the lodging of applications under the Hong Kong Public Offering
“Pasicue”	Pasicue Investments Ltd. (百時吉投資有限公司), a limited liability company incorporated in BVI and an Independent Third Party
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC” or “China”	the People’s Republic of China, which for the purposes of this prospectus only (unless otherwise indicated) excludes Hong Kong, Macau and Taiwan
“PRC GAAP”	the generally accepted accounting principles in the PRC
“PRC government” or “State”	the central government of the PRC, including all government subdivisions (including provincial, municipal and other regional or local government entities)
“PRC Legal Advisers”	AllBright Law Offices, our legal advisers as to PRC law

## DEFINITIONS

“Preference Shares Investors”	BOCOM Holdings, Chemwin Limited, UVM Venture Investments Limited, CITIC International Assets Management Limited (中信國際資產管理有限公司), Rich Honour Holdings Limited (諾信控股有限公司) and Central Harvest Holdings Company Limited (滙盛控股有限公司), being holders of preference shares in Sure Capital and all being Independent Third Parties
“Price Determination Agreement”	the agreement to be entered into between us and the Joint Bookrunners (on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	on or about Wednesday, 8 September 2010 (Hong Kong time) at which time the Offer Price is determined, or such later time as our Company and the Joint Bookrunners (on behalf of the Underwriters) may agree, but in any event not later than Tuesday, 14 September 2010
“Production Licence Notice”	the Notice on the Implementation of Industrial Policies regarding the Production Permission for Industrial Products (《關於工業產品生產許可工作中嚴格執行國家產業政策有關問題的通知》) jointly promulgated by the GAQSIQ and the NDRC and effective on 9 November 2006
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the corporate reorganisation of our Company effected in preparation for the Listing, details of which are set out in the section headed “History and Reorganisation – Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by our Shareholders on 24 August 2010, particulars of which are set forth in the section headed “Statutory and general information – Further information about our Company – Resolutions in writing of our Shareholders passed on 24 August 2010” as set out in Appendix VII to this prospectus
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAI Report”	a report dated 27 August 2010, which we commissioned with Strategic Analysis Inc. for US\$25,500. The report analyses, among other things, the market conditions of ethylene oxide and non-ionic surfactant products, in particular AEO surfactants, in China

## DEFINITIONS

“Sanjiang Chemical”	三江化工有限公司 (Sanjiang Chemical Co., Ltd.*), formerly known as 嘉興三江化工有限公司 (Jiaxing Sanjiang Chemical Co., Ltd.*), a company established in the PRC with limited liability on 9 December 2003, and an indirect wholly-owned subsidiary of our Company
“Sanjiang Honam”	三江湖石化化工有限公司 (Sanjiang Honam Chemical Co., Ltd.*), a company established in the PRC with limited liability on 11 May 2010, and a sino-foreign joint venture company jointly controlled by Sanjiang Chemical and Honam Petrochemical Corp. (湖南石油化學株式會社) which is an Independent Third Party
“Sanjiang Production Plants”	Jiaxing Production Plant and Xiaoshan Production Plant
“Sanjiang Trading”	嘉興市三江化工貿易有限公司 (Jiaxing City Sanjiang Chemical Trading Co., Ltd.*), a company established in the PRC with limited liability on 29 October 2004, and an indirect wholly-owned subsidiary of our Company
“SCNPC”	the Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time
“Share(s)”	ordinary shares in the capital of our Company with a nominal value of HK\$0.10 each
“Share Option Scheme”	the share option scheme conditionally approved by our Shareholders on 24 August 2010, principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix VII to this prospectus
“Shareholder(s)”	holder(s) of Shares
“Sole Global Coordinator”	BOCOM Securities
“Stabilising Manager”	BOCOM Securities
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into on or about the Price Determination Date between BOCOM Holdings and BOCOM Securities

## DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sure Capital”	Sure Capital Holdings Limited, a company incorporated in BVI with limited liability on 10 July 2009, and as of the Latest Practicable Date, its ordinary shares were owned by Mr. Guan as to 84.71% and Ms. Han as to 15.29% and its preference shares were held by the Preference Shares Investors, and a controlling shareholder of our Company
“Tengfei Gongmao”	杭州騰飛工貿實業有限公司 (Hangzhou Tengfei Gongmao Enterprise Co., Ltd.*), a company established in the PRC with limited liability, a former shareholder of Sanjiang Chemical and an Independent Third Party
“Track Record Period”	the three financial years ended 31 December 2009 and the four months ended 30 April 2010; the phrase “during the Track Record Period”, followed by a series of figures or percentages, refers to information relating to the years ended 31 December 2007, 2008, 2009 and the four month period ended 30 April 2010, respectively
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“USD”, “US\$” or “U.S. dollar(s)”	United States dollars, the lawful currency of the United States
“VAT”	value added tax
“Xiaoshan Production Plant”	the production plant located at the Xiaoshan Site
“Xiaoshan Site”	the production site located at Shanmozhi Village, Xinjie Town, Xiaoshan of the Zhejiang Province
“Yongming Petrochemical”	嘉興永明石化有限公司 (Jiaxing Yongming Petrochemical Co., Ltd.*), a company established in the PRC with limited liability on 9 December 2003, and an indirect wholly-owned subsidiary of our Company

## DEFINITIONS

“Zhapu Construction”

嘉興市乍浦建設投資有限公司 (Jiaxing City Zhapu Construction and Investment Co., Ltd.\*), a company established in the PRC with limited liability on 9 June 2000, and an Independent Third Party other than being a substantial shareholder of Guanlang and Jiaxing Rewang

*Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus are as of the Latest Practicable Date.*

*In this prospectus, the terms “associate”, “connected person”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings ascribed to them under the Listing Rules, unless the context otherwise requires.*

*In this prospectus, unless otherwise stated, certain amounts denominated in RMB and U.S. dollars have been translated into HK dollars at an exchange rate of US\$1 = HK\$7.75 and HK\$1 = RMB0.8756 for illustration purposes only. Such conversions shall not be construed as representations that amounts in RMB or U.S. dollars were or may have been converted into HK dollars at such rate or any other exchange rates.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with “\*” is for identification purpose only.*

\* For identification purpose only

## GLOSSARY OF TECHNICAL TERMS

**This glossary contains explanations of certain terms used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.**

“acetic acid”	$\text{CH}_3\text{COOH}$ , an organic acid which gives vinegar its characteristic taste. The pure acid is a colourless, vicious liquid
“adhesive”	a compound in a liquid or semi-liquid state that adheres or bonds items together
“AEO surfactant(s)”	also known as fatty alcohol polyoxyethylene ether, a type of non-ionic surfactant commonly used in the production of household liquid detergent and as an intermediate to produce AES, which is in turn commonly used in the shampoo industry
“AES”	a compound known as sodium fatty alcohol ether sulphate, which is used to produce households and industrial grade cleaning products such as soap
“AESA”	a compound known as ammonium lauryl ether sulphate, which is used to produce liquid detergent and different types of shampoo
“air separation plant”	machinery which separates and purifies air into nitrogen, oxygen and argon in gaseous state
“aliphatic solvents”	a mix of normal paraffins (also known as alkane hydrocarbons), isoparaffins and cycloparaffins. The word “aliphatic” generally used as a descriptive term for chemical compounds composed of straight chain molecules. They are used in odourless paint, adhesives, wood treatments, tyres, cosmetics etc.
“anionic surfactant”	a surfactant that contains a negatively charged head and reacts with positively charged water hardness ions, such as calcium and magnesium
“apoprotein(s)”	a protein together with a prosthetic group forms a particular biochemical molecule such as hormone or enzyme
“aqueous solution”	a solution in which water is a major constituent besides the organic material
“argon”	the chemical element of atomic number 18, an inert gaseous element of the noble gas group. Argon is the most common noble gas, making up nearly one percent of earth’s atmosphere

## GLOSSARY OF TECHNICAL TERMS

“Brent Crude Oil Price”	Brent Crude oil is sourced from the North Sea and forms a benchmark for oil production from Europe, Africa and the Middle East. The price of Brent Crude oil provides a reference oil price measured in US\$ per barrel
“carbon dioxide”	CO <sub>2</sub> , a colourless, odourless gas produced by burning carbon and organic compounds and by respiration
“CAS number”	a unique numerical identifier issued by the American Chemical Society for chemical elements, compounds, polymers, biological sequences, mixtures and alloys
“catalyst”	a substance that speeds up a chemical reaction, but is not consumed by the reaction
“CFR”	cost and freight. The seller is responsible for the payment of freight to carry goods to a named destination, as agreed with the buyer
“consumer chemicals”	chemicals used as ingredients to produce personal care consumer products
“degreasing agent(s)”	a substance which removes excess grease or fat
“demulsifier(s)”	a chemical used to break emulsions
“dichloroethane inhibitor”	a chlorinated hydrocarbon which slows down or prevents a particular chemical reaction or reduces the activity of a particular reactant, catalyst or enzyme. This is used in the ethylene oxide production process to avoid deep oxidation of ethylene
“double-circuit electricity power supply”	a more reliable power supply in comparison with a single circuit electricity system in that double circuits can provide more power and introduce a level of redundancy. In the case of emergency where one of the two circuits fail, the other half will remain capable of transmitting electricity
“downstream product(s)”	in relation to the Group’s operations, products derived with ethylene oxide being its main constituent, including ethylene glycol and surfactants etc.
“electrolyte”	a substance whose aqueous solutions conducts electricity
“emulsifier”	an additive used to stabilise a fine dispersion of minute droplets of one liquid in another in which the liquid is not soluble or miscible

## GLOSSARY OF TECHNICAL TERMS

“epoxide”	an organic compound whose molecule contains a three-membered ring involving an oxygen atom and two carbon atoms, simple epoxides include ethylene oxide or oxirane
“epoxyethane”	a synonym of ethylene oxide and oxirane
“ethanolamines”	$C_2H_7NO$ , a toxic, flammable, corrosive, colourless, viscous liquid
“ether”	a pleasant-smelling colourless volatile liquid that is highly flammable
“ethylene”	a flammable hydrocarbon gas of the alkene series, occurring in natural gas, coal gas and crude oil. It is used in chemical synthesis, and is an important component of the production of ethylene oxide
“ethylene glycol”	a downstream product of ethylene oxide, colourless viscous hygroscopic liquid used as an antifreeze, in the manufacture of polyesters etc.
“ethylene oxide”	a flammable toxic gas used as an intermediate and fumigant. In this prospectus, it is also referred to as “epoxyethane” and “oxirane”
“fatty alcohol”	any of various alcohols derived from plant or animal oils and fats that are largely used in the detergent industry
“fractionation”	separation of a mixture into separate components
“glycol ethers”	a class of high production volume chemicals with wide spread industrial applications as solvents and chemical intermediates. Most glycol ether compounds are clear, colourless liquids. Some glycol ethers have mild pleasant odours or no smell at all, whilst others have strong odours. Glycol ethers are widely used industrial solvents, and may be used as an ingredient in products such as coatings, cleaners, brake fluids, perfumes and cosmetics
“hard water”	water that has high dissolved mineral content that may interfere with some industrial processes
“hydrocarbons”	a compound of hydrogen and carbon, such as any of those which are the chief components of petroleum and natural gas

## GLOSSARY OF TECHNICAL TERMS

“ICIS”	an information provider for the chemical and oil industry that provides, amongst other information, ethylene price quotation, which is widely adopted in the industry as a benchmark price. ICIS is operated by Reed Elsevier Group plc, a world leading provider of professional information whose shares are listed on the London Stock Exchange
“levelling agent(s)”	a substance which is added to the dye bath to promote level dyeing
“ISO 9001”	requirements for quality management systems provided by the International Organisation for Standardisation. It is now firmly established as the globally implemented standard for providing assurance about the ability to satisfy quality requirements and to enhance customer satisfaction in supplier-customer relationships
“multi-tubular catalytic reactor”	machinery used in the oxidation of ethylene in producing ethylene oxide. The reactor consists of large bundles of any tubes that contain catalyst spheres or rings
“nitrogen liquefaction plant”	machinery which converts gaseous nitrogen into liquid nitrogen
“non-ionic surfactant”	a surfactant that does not dissociate in water due to its non-ionic characteristics
“oxidation”	the process or result of the chemical combination of a substance with oxygen
“oxirane”	an synonym for ethylene oxide and epoxyethane
“petrochemical”	relating to or denoting substances obtained by the refining and processing of petroleum or a natural gas
“phospholipids”	lipids containing a phosphate group in its molecule
“plasticiser”	a substance (typically a solvent) added to a synthetic resin to produce or promote plasticity and flexibility and to reduce brittleness
“polar solvent(s)”	a liquid consisting of molecules with a dipole
“polypropylene pall rings”	plastic packing used in tower plants for processes such as absorption, scrubbing and stripping
“re-absorption tower”	a vertical tube in which a rising gas is partially absorbed by a liquid in the form of falling droplets

## GLOSSARY OF TECHNICAL TERMS

“scrubber”	a device that can be used to remove water droplets and particulates
“selectivity range”	a means of measuring how well a catalyst separates all the by-products in ethylene oxidation, including ethylene oxide, by measuring the level of purity of the separated by-products
“solubiliser”	a substance which improves the solubility of one or more product ingredients
“steam stripping”	the process of using steam as a stripping vapour for the separation of insoluble or slightly soluble compounds from water
“surfactant(s)”	a substance which tends to reduce the surface tension of a liquid in which it is dissolved
“synthetic latex stabiliser(s)”	a substance made by chemical synthesis used to preserve the integrity of latex by preventing it from coagulating
“synthetic resin”	a solid or liquid synthetic organic polymer used as the basis of plastics, adhesives, varnishes or other products
“vacuum dehydration”	the process of reduction of water in a substance under low pressure to prevent the degradation

## RISK FACTORS

**Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks and uncertainties associated with an investment in our Company before making any investment decision regarding our Company. You should pay particular attention to the fact that our Company was incorporated in the Cayman Islands and all of our Group's operations are conducted in the PRC and are governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or on the trading price of our Shares, and could cause you to lose all or part of your investment.**

We believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorised into: (i) risks relating to our business; (ii) risks relating to the industry which we operate in; (iii) risks relating to conducting business in China; and (iv) risks relating to the Global Offering and our Shares.

### **RISKS RELATING TO OUR BUSINESS**

**We rely heavily on the sales of ethylene oxide and surfactants as our major source of revenue. Any change in demand may adversely affect our revenue and profitability**

We currently generate a substantial part of our revenue from the sales of chemical products, namely ethylene oxide and downstream surfactants, which in aggregate accounted for approximately 94.2%, 91.9%, 88.8% and 94.3% of the total revenue during the Track Record Period respectively. The demand for and the price of ethylene oxide and surfactants are subject to fluctuations. It is uncertain that we can successfully broaden our revenue sources or, if we can, generate additional revenue at a level comparable to that from the sales of ethylene oxide and surfactants. In the event that there is any material adverse change in the market demand for and/or price of ethylene oxide and surfactants, our revenue and profitability may be materially and adversely affected.

**Any shortage in supply of raw materials or fluctuation in the prices of our raw materials may adversely affect our profit margins and results of operation**

We source raw materials, in particular, ethylene from a limited number of overseas suppliers as to the best of the knowledge and belief of our Directors, domestic supply of ethylene which can support our production capacity is not currently available in the PRC. According to the SAI Report, approximately 98% of the domestically produced ethylene in China is primarily for internal use by the respective producers to produce various downstream ethylene products. As such, we need to secure ethylene supplies by importing from external sources such as Japan, Korea and other countries.

During the Track Record Period, our five largest raw material suppliers, who were Independent Third Parties, together accounted for approximately 79.3%, 68.0%, 68.9% and 83.1% of our total purchases respectively, and our largest raw material supplier accounted for approximately 47.7%, 65.1%, 40.3% and 47.4% of our total purchases respectively. As the production of ethylene oxide requires large amounts of ethylene, during the Track Record Period the cost of ethylene accounted for approximately 78.8%, 73.7%, 62.1% and 76.4% of our cost of sales respectively. During the Track Record Period, we have had six ethylene suppliers, none of which we had entered into long term contracts with. Instead, we enter into contracts with most of our suppliers on a yearly basis. The prices of ethylene in our annual

## RISK FACTORS

contracts are agreed between our suppliers and us with reference to the CFR price quoted by ICIS at the time the purchase orders are placed. Our main suppliers of ethylene are reputable companies in Japan. It is our intention to continue purchasing and importing ethylene from these suppliers for the coming years. However, we cannot guarantee that we will be able to renew the agreements with these companies every year, or able to find alternative suppliers in time to replace these companies if we are not able to renew such agreements. Major overseas ethylene manufacturers may suspend production to carry out regular maintenance. Accordingly, the supply of ethylene from overseas into the PRC market will be affected and this, in turn, may translate into fluctuations of ethylene prices. There is no assurance that we will always be able to secure an adequate supply of raw materials at commercially viable prices to meet our future production requirements. Moreover, fluctuations in the prices of our raw materials, especially the market prices of ethylene which are primarily affected by the international crude oil prices, may increase our costs of sales and reduce our gross profit and gross margin. We cannot guarantee that we will not suffer adverse effects from any price increases of raw materials in the future. If we encounter a shortage of raw materials or if we are unable to pass on the price increases of raw materials to our customers in a timely manner, our business and results of operations could be adversely affected.

### **Our surfactant production may be restricted by our in-house supply of ethylene oxide**

During the Track Record Period, we have constantly expanded our surfactant production capacity with an aim to capitalise on an anticipated growing demand for surfactants and their downstream products. In 2008, we expanded our annual aggregate designed production capacity of surfactants to 118,000 MT. Subsequently, we expanded our annual aggregate designed production capacity of surfactants to 218,000 MT in 2010. However, we have not since been able to fully utilise such increased surfactant production capacity partially due to our restrictive in-house supply of ethylene oxide. Due to the keen demand for ethylene oxide, we do not source ethylene oxide from external suppliers. As such, the level of our surfactant production entirely depends on the anticipated amount of ethylene oxide that may be available in-house after taking into account the amount of ethylene oxide sold directly to our customers. As at the Latest Practicable Date, our aggregate designed annual production capacity of ethylene oxide was 120,000 MT. Our Directors anticipate that our existing aggregate designed annual production capacity of ethylene oxide will increase to approximately 180,000 MT by early 2011 following the completion of the third phase construction of the ethylene oxide production facilities of 60,000 MT at our Jiaxing Production Plant. However, we cannot guarantee that we will be able to complete our expansion plans within schedule. In the event where we encounter any unforeseen circumstances that may cause delay in or termination of the construction of our ethylene oxide production facilities, or we choose to increase the direct sales of ethylene oxide after the completion of such construction, the utilisation rate of our surfactant production facilities may remain at a low level and as a result, we may not be able to optimise our surfactant production capacity and derive maximum revenue from our surfactant production facilities. Please refer to the sections headed “Business – Our strategies – Strengthen our leading market position in China through expansion of our production capacity”, “Business – Production capacities, production plant and storage facilities – Our Group’s expansion plans” and “Future plans and use of proceeds” in this prospectus for further details on our future expansion plans.

## RISK FACTORS

### **We experienced a decrease in gross profit margin for the four months ended 30 April 2010**

We experienced a decrease in gross profit margin for the four months ended 30 April 2010. During the Track Record Period, our ethylene oxide recorded a gross profit margin of 23.1%, 25.0%, 29.9% and 20.2% respectively. For the same period, the gross profit margin of our surfactants was 27.5%, 15.2%, 18.1% and 15.2% respectively. The decrease in gross profit margin of our products for the four months ended 30 April 2010 was primarily due to the increase in raw material cost which outpaced the increase in product selling price. During the four months ended 30 April 2010, the average cost of our raw materials consumed, namely ethylene, increased by approximately 53.0% as compared with the average cost in 2009 while the average selling price of our ethylene oxide and surfactants increased by approximately 21.8% and 17.4%, respectively. The increase in cost of ethylene was primarily attributable to the increase in average international crude oil prices from US\$63.1 per barrel for the year 2009 to US\$78.6 per barrel for the four months ended 30 April 2010. Other supplementary factors contributing to the increase in ethylene prices were an additional 2% customs levy imposed on the import of ethylene commencing from 1 January 2010 and the decrease in the overall supply of ethylene from overseas into the PRC market. During the first four months in 2010, major overseas ethylene manufacturers, namely PTT Chemical Public Company Limited, Exxon Mobil Corporation, Showa Denko K.K., Tosoh Corporation and LG Chem Ltd., suspended production for regular maintenance for over a month. Such suspension of ethylene production affected the overall supply of ethylene from overseas into the PRC market. As a result of the foregoing, the average cost of ethylene increased during the four months ended 30 April 2010 as compared with 2009 and our gross profit margin was adversely affected.

In the event that we are not able to pass on the incremental costs to our customers or our Group fails to control our costs through implementing effective measures, our gross profit margin may be adversely affected.

### **Our expansion plans may not be completed as planned, may exceed our original budgets and may not achieve the intended economic results or commercial viability**

Our future success to a large extent depends on our ability to expand our production capacity. We have expanded our production capacity by constructing new production facilities in order to cater for the anticipated growing demand of ethylene oxide and surfactants in the PRC. In particular, we have commenced the construction of the third phase ethylene oxide production facilities at our Jiaying Production Plant. Upon completion of the third phase construction of the ethylene oxide production facilities with a designed annual production capacity of 60,000 MT, our designed annual production capacity of ethylene oxide will reach 180,000 MT. We anticipate that Sanjiang Honam, the sino-foreign joint venture company jointly established and controlled by Honam Petrochemical Corp. (湖南石油化學株式會社) and us, will commence the first phase construction of ethylene oxide production facilities with a designed annual production capacity of 100,000 MT at the end of 2010. We expect that the completion of the construction will take place by the end of 2011 and the second phase construction of ethylene oxide production facilities with a designed annual production capacity of 100,000 MT will commence following the commencement of the first phase production of ethylene oxide. Please refer to the sections headed “Business – Our strategies – Strengthen our leading market position in China through expansion of our production capacity”, “Business – Production capacities, production plant and storage facility – Our Group’s expansion plans” and “Future plans and use of proceeds” in this prospectus for further details on our future expansion plans. We cannot guarantee that we will be able to complete our expansion plans within budget and schedule. Our expansion plans may be adversely affected by factors such as lack of utilities and personnel, unexpected technical problems, natural disasters, issues in relation to our

## RISK FACTORS

construction sites, logistical difficulties and any unforeseen legal impediments introduced by the PRC government. If there is any delay in the progress of our expansion plans, we may not be able to deliver our products in the quantity and quality demanded by our customers and hence, our reputation and future business opportunities may be adversely affected. Further, these plans may not achieve the intended economic results or commercial viability, which in turn could weaken our competitive position in the market and have a material adverse effect on our financial conditions and results of operations.

### **We require substantial capital to expand our business, any failure to obtain sufficient capital or adequate finance may adversely affect our expansion plans and growth**

Our business and operations are capital intensive as we require significant amount of capital to expand our operations, maintain and operate our production facilities. In particular, we require a considerable amount of capital in expanding, constructing and purchasing production facilities and equipment as well as implementing new technologies to cater for our production needs. During the Track Record Period, our Group incurred an aggregate capital expenditure of approximately RMB280.9 million, RMB216.0 million, RMB49.0 million and RMB71.5 million respectively. We expect to increase our capital expenditure to approximately RMB233.7 million and RMB102.0 million respectively for the two years ending 31 December 2011, as we seek to strengthen our leading market position in China by expanding our production capacity. Given that a substantial portion of our capital expenditures are incurred in advance of any actual sales, our success is heavily based on our ability to continue to secure and successfully manage sufficient amounts of working capital.

We plan to finance a portion of the estimated capital expenditures with the net proceeds from the Global Offering and if necessary, with cash flows generated from our operations. To the extent where our funding requirements exceed our financial resources, we will be required to seek additional financing or defer planned expenditures. However, such additional financing is subject to PRC credit policies imposed by the PRC Government. We are unable to predict whether the PRC Government will further tighten credit in China and thus, increase our financing costs in relation to our capital expenditure. If we are unable to obtain financing in a timely manner, at reasonable cost or on reasonable terms, our expansion plans or completion of new production facilities may be delayed, our proposed or potential projects may be hindered, and our growth, competitive position, financial position and results of operations may be adversely affected.

### **Our business strategies are subject to significant business, economic and competitive uncertainties and contingencies in the market**

Our business strategies are subject to all uncertainties and contingencies in the market, many of which are beyond our control and may increase our costs or delay implementation. Such uncertainties may include, but are not limited to, our inability to finance or obtain capital to finance our expansion plans, delays in the delivery and installation of manufacturing equipment, operational difficulties resulting from technology imperfections, global economic condition, labour shortage and related issues, crude oil and other raw material cost increases, promulgations of new laws and regulations related to our industry, delays or failure in securing necessary government approvals and land use rights. We cannot assure that our business operations and financial condition will not be adversely affected in such events.

## RISK FACTORS

### **We may not be able to manage our growth**

We have grown substantially in terms of revenue and size in the past few years. Notably, between 2007 and 2009, the net profit attributable to equity holders of the parent grew from approximately RMB147.4 million to approximately RMB242.1 million at a CAGR of 28.2%. Further details are available in the “Financial information” section of this prospectus. Under our current expansion plans, we have and will continue to expand our operations by constructing new production facilities. We may also enter into arrangements with business partners, acquisition targets and raw materials or equipment suppliers in order to expand our operations. Such expansions may place substantial strain on our managerial, operational and financial resources. In particular, our management may be stretched or distracted between our existing operations and expansion projects. We cannot assure you that our managerial, operational and financial resources will be adequate to support our expansion projects. Failure to manage our expansion projects effectively may cause adverse effects on our production efficiency as a whole, and may lead to increased costs, decline in total revenue and/or reduced profitability.

### **Our business prospects may be difficult to evaluate due to our short operating history**

We commenced our ethylene oxide business, one of our primary sources of revenue, in January 2006 when the first phase of our ethylene oxide production facilities commenced operation. Since then, our ethylene oxide business has expanded rapidly through the completion of the second phase of our ethylene oxide production facilities in December 2008 and the commencement of construction of our third phase ethylene oxide production facilities in December 2009. During the Track Record Period, revenue derived from the sale of ethylene oxide represented approximately 90.7%, 87.0%, 72.0% and 83.2% of our total revenue respectively. As our ethylene oxide business operating history is relatively short, there may be limited historical operational data available to establish long term trends to evaluate the performance and prospects of our ethylene oxide business.

### **We are subject to risks in relation to the operation of our production facilities**

Our chemical production business involves the handling, storage and use of hazardous, flammable and explosive materials, including ethylene, ethylene oxide and ethylene glycol. Improper handling of these hazardous materials can cause serious pollution, fires, explosions, and may even expose handlers to serious health and safety issues. Moreover, operational breakdowns can also result from external factors beyond our control, such as natural disasters (including but not limited to flooding, cyclone, typhoon), terrorism or other third party inference. Such risks of operational breakdowns cannot be excluded even if high technical and safety standards for the construction, operation and maintenance of such production facilities are met. Further, in order to maintain safety standards and operational efficiency, we may conduct maintenance, inspections and technology advancements to our production facilities and suspend our productions and operations accordingly. In particular, we temporarily suspended the operations of one of our ethylene oxide production facilities for maintenance for around three weeks in August 2010.

Any breakdown or suspension of production or failure to supply chemical products to our customers in a timely manner according to the provisions of our supply contracts may result in breach of contracts, loss of revenue, as well as expose us to liability and the requirement to pay compensation under the relevant contracts, lawsuits and damage to our reputation. Consequently, our business, financial condition and results of operations may be adversely affected.

## RISK FACTORS

**We rely heavily on our major customers. Any significant reduction in sales to or the loss of any of our major customers could materially and adversely affect our profitability and results of operations**

Sales to our five largest customers together accounted for approximately 62.0%, 49.8%, 39.8% and 44.6% of our revenue during the Track Record Period. It is essential for us to maintain close and mutually beneficial relationships with them. To date, we deal with most of our ethylene oxide customers in the form of year long purchase contracts and surfactant customers in the form of one-off purchase contracts. As such, there can be no assurance that our major customers will continue their purchases, if at all, from us at the current levels.

Moreover, our revenue is also subject to our customers' business, product quality, sales strategy, industry conditions and the overall economic market environments. We cannot rule out the risk that our ethylene oxide and surfactants customers may terminate our contracts prior to the agreed term, become insolvent or otherwise default on payments under such contracts, or fail to take delivery of our products in accordance with the purchase contracts. Consequently, we may fail to recover all expenditure for the construction and operation of our production facilities, and other utilities. In essence, any significant reduction of sales to or loss of any of our customers could materially and adversely affect our profitability and results of operations.

**Change in our customer mix may adversely affect our revenue and results of operations**

Our ethylene oxide and surfactants customers include manufacturers and trading companies. For the two years ended 31 December 2008, the majority of our revenue derived from sale of ethylene oxide was attributable to trading companies. Since 2009, the majority of our ethylene oxide was sold to manufacturers of surfactants and other chemicals. The shift in our focus from trading companies to manufacturers was part of our strategy to develop our own distribution channels and customer base in order to secure a steady and long term source of revenue through direct business relationships with end customers. However, we cannot assure that we will be able to maintain our current customer mix or further develop our customer base with direct sales to manufacturers, which generally represents a more steady and long term source of revenue. On the other hand, we may, taking into account our expansion plans, the market supply and demand and other factors, shift our customer mix and sell our products to more trading companies in the future to enhance the market penetration of our products through their broad distribution network. As in our case, after taking into account the increased surfactants output as a result of the commencement of operation of the new surfactant production line at our Jiaxing Production Plant in 2008 and the increased supply of self-manufactured ethylene oxide for production of surfactants resulting from the expanded production capacity in December 2008, we have shifted our surfactant sales focus from manufacturers to trading companies since 2009 in order to enhance our market penetration. We may not be able to secure a steady and long term source of revenue through sales to trading companies and as such, change in our customer mix may adversely affect our revenue and results of operations. Please refer to the section headed "Business – Sales and marketing – Customers" in this prospectus for further details on our customer mix.

## RISK FACTORS

### **We purchase our production technology, equipment and components primarily from a limited number of suppliers**

Our production technology and main equipment used, especially in the production of ethylene oxide, were purchased mostly from a limited number of overseas suppliers, including production technology provided by Scientific Design Company Inc. (“SD Company”) and reactors and compressors in our ethylene oxide production facilities imported from renowned overseas suppliers located in India, the United States and Japan. Such technology and equipment are essential to the operations of our productions, and is an integral part of our business. To the best of the knowledge and belief of our Directors, there are only very few entrusted alternative suppliers of the aforementioned equipment in the PRC. Under the licence, process design and technical assistance service agreements entered into between SD Company and us in January 2004, August 2006 and May 2009, SD Company may, at its option, terminate the agreements and the licences granted forthwith by written notice to us if any payment required to be made by us under the agreements shall not be made when due and such default shall continue and remain unremedied for more than 90 days after written notice thereof is given by SD Company; or if we shall make any other material default under the provisions of the agreements and such default shall continue and remain unremedied for more than 90 days after written notice thereof is given to us by SD Company. If SD Company terminates the agreements and the licences under such circumstances, our business may be adversely affected.

We expect to expend approximately RMB200 million for procurement of production technology and main equipment for our third phase ethylene oxide production facilities. Late or interrupted deliveries of essential equipment or parts and transfer of technology may cause delays in the commencement of production or the supply of our chemical products, especially in our new production facilities. As a result, our business may be adversely affected in the form of additional time and potential costs in locating alternatives to satisfy the purchase orders of our customers in the event of production insufficiency due to such delay in or failure of delivery and transfer. Further, even though there may be alternatives to the aforementioned equipment, it may take time to locate them and there can be no assurance that such alternatives would cost the same, exposing our business to potential increased costs and financial distress. Please refer to the sections headed “Business – Production capacities, production plant and storage facility – Jiaying Production Plant” and “Business – Production capacities, production plant and storage facility – Ethylene oxide production technology” in this prospectus for further details on our production facilities and technology.

### **We may not be able to successfully and profitably develop, produce and market new products or improve the quality of our existing products**

In view of the rising market demand for variety and functionality of downstream products of surfactants, we intend to expand our product coverage by developing new types of surfactants, improve the quality of our existing products, and production technologies through our research and development team and potential collaboration and/or cooperation with universities in the PRC. However, the development process of new or enhanced products may be both time consuming and costly. There is also no assurance that such effort in research and development will result in the successful introduction of new products or service or the improvement of our existing products, nor can we assure that any of such new or enhanced products or services will be accepted by the market. Should we fail to develop and market our new or enhanced products, our ability to compete in the market may be restricted and thus our operating results may be adversely affected.

## RISK FACTORS

### **We rely on certain key personnel and the hiring and retaining of other qualified personnel to maintain our continued success**

The success of our business depends on, to a considerable extent, the services of Mr. Guan and other members of our senior management. In particular, Mr. Guan has, since the establishment of our Group, led our senior management team in building our Group into the largest privately-owned manufacturer and supplier of ethylene oxide and AEO surfactants in China in term of production volume in 2009. While we have established long-term employment relationships with our senior management and may hire additional qualified individuals to work in various capacities for us, there is no assurance that any of these senior management and qualified personnel will continue his or her present capacity with us for any particular period of time. The loss of services of any key member of our senior management or failure to recruit a suitable or comparable replacement could have a significant impact upon our ability to manage our business effectively and as a result, our business and future growth may be adversely affected.

### **Our insurance may not be sufficient to cover the risks connected with our operations and potential losses**

We face various risks in connection with our businesses, especially in relation to our complex production facilities, manufacturing and transportation equipment. Many of our inventories, including raw materials and certain of our finished products are potentially destructive and dangerous in uncontrolled or unforeseen circumstances, namely ethylene and ethylene oxide. Even though we maintain insurance policies to cover our properties, manufacturing facilities, plant and machinery, equipment and inventories against damage caused by accidents, our operations are still subject to unforeseen situation or events. As such, we may not have adequate insurance coverage or may have no relevant insurance coverage for the losses or damages we suffer. In addition, we may even be held liable for injuries and damages caused to third parties or their properties by any accident caused by us, especially during transportation of our finished products. In particular, the tankers and ships used to transport ethylene oxide and other potentially hazardous products are subject to perils such as capsizing, grounding, collision, accidents and hostile weather conditions, the occurrence of which will likely cause severe damages and injuries to properties, environment, humans and even our own reputation. Moreover, we may also be subject to lawsuits for large amount of damages and compensations. As a result, should such events occur and our insurance policies be ineffective, our financial condition and results in operations may be adversely affected.

## RISK FACTORS

### **Any interruption, shortage of utilities or fluctuation in utility prices may affect our business operations and financial condition**

Our production process requires a stable supply of utilities, including electricity and water in large quantities. Water and electricity both play an important function in the production process of ethylene oxide, our main revenue generating product. As such, our entire production process may be forced to stop if there is insufficient utility supplies or suspension of such supplies. Also, we anticipate that our reliance on such supplies will further increase as we seek to expand our production capacity. Any shortage of supply may therefore adversely affect our production flow and prevent us from satisfying obligations under the purchase contracts with our customers during the affected period, causing potential harm to our financial condition and results of operations.

### **Our controlling shareholder has the ability to exercise substantial control over us, which may influence our business in ways which may not be in the best interests of our other Shareholders**

Upon the completion of the Global Offering and the Capitalisation Issue, assuming the Over-allotment Option is not exercised, Sure Capital will beneficially own and control approximately 45.51% of our shareholding interest. Subject to our Articles of Associations and applicable laws and regulations, Sure Capital will continue to have the ability to exercise a controlling influence over our business, including matters relating to our management and policies and certain matters requiring the approval of Shareholders, namely the election of our Directors, the approval of significant corporate transactions and the timing and distribution of dividends. Further, Sure Capital will also have veto power with respect to any shareholder action or approval requiring a majority vote (save for matters which are subject to independent Shareholders' approval under the Listing Rules and when Sure Capital is not considered independent, in which case Sure Capital will not vote). As such, Sure Capital may cause us to enter into transactions, to take or fail to take, other actions, or to make decisions that conflict with the best interests of our other Shareholders.

### **We incurred net current liabilities as at 31 December 2007, 2008 and 2009, 30 April 2010 and 31 July 2010**

As at 31 December 2007, 2008, 2009, 30 April 2010 and 31 July 2010, we incurred net current liabilities of approximately RMB554.6 million, RMB543.3 million, RMB663.6 million, RMB627.0 million and RMB558.9 million respectively. Our net current liabilities level is primarily due to the high level of short term bank borrowings, which together with long term bank borrowings and cash from operating activities, were mainly used to finance our operations and the second and third phases of our expansion projects in 2007 and 2009 respectively. Our net current liabilities level may remain the same or increase in the coming year. As such, we may be exposed to potential liquidity risk. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debt obligations as and when they fall due will primarily depend on our ability to maintain adequate cash inflows from operating activities and adequate external financing. There can be no assurance that we will always be able to raise the necessary funding to finance our current liabilities and our capital commitments. Should we fail to do so, our business operations, financial position and prospects may be materially adversely affected. Please refer to the section headed "Financial information" in this prospectus for more details.

## RISK FACTORS

### **We have not obtained legal titles to some of the properties we own**

For some of the properties that we own, we have not yet obtained and may not be able to obtain title certificates that allow us to freely use, transfer, mortgage or otherwise dispose of the properties. As of the Latest Practicable Date, we did not possess building ownership certificates for five buildings with a total gross floor area of approximately 600 square metres, representing approximately 1.85% of the total area of properties we own and occupy. Such buildings are mainly used for security guard rooms, rest lounges and weight room purposes, which are unrelated to our production activities. We are unable to obtain the building ownership certificates for the aforesaid five buildings due to our failure to obtain the necessary construction permits, i.e. the Planning Permit on Construction Works (建設工程規劃許可證) and the Working Permit on Construction Works (建築工程施工許可證) when we constructed such buildings. Under the applicable PRC laws, the local government authorities may require us to demolish such buildings within a specified period of time or may confiscate such buildings and impose a fine on us. We cannot guarantee that we will be able to effectively mitigate the possible adverse effects that may be caused by loss of such properties or by ownership dispute or claim regarding such properties. Please refer to the section headed “Business – Production capacities, production plant and storage facility – Jiaxing Production Plant” in this prospectus for further details.

### **Our operations are subject to risks of mortgages on our real estate properties, land use rights and production facilities**

As of the Latest Practicable Date, certain production facilities and equipment of our Group and a parcel of land with an aggregate site area of approximately 49,891 square metres which we own near the Port of Zhapu Port have been mortgaged as security for repayment of loans granted to our Group. The mortgaged properties and land are currently occupied by us for storage purpose unrelated to our production activities. In the event that our Group defaults by failing to renew or obtain refinancing for such loans, the production facilities, equipment, real estate properties and the relevant land use rights mortgaged by us may be subject to, among other things, seizures and auctions, as provided in the Security Law of PRC (中華人民共和國擔保法). As such, our business operations and financial position may be materially and adversely affected.

### **We did not fully comply with PRC employee social welfare contribution regulations**

In accordance with relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance (together “**social insurance**”) and housing fund contributions. During the Track Record Period, we did not fully comply with the social insurance and housing fund requirements for our employees because (i) a number of employees declined our Group’s payment of social insurance contributions on their behalf as such payment might reduce their direct disposable income; and (ii) a number of employees declined our Group’s payment of housing fund contributions on their behalf as they did not foresee that they would purchase properties in the near future and given that the contributions made would not be returned to them in cash, they preferred not to make such contributions. We estimate that the aggregate unpaid amount by our Group to the social insurance authority for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 would be approximately RMB1.03 million, RMB1.40 million, RMB1.86 million and RMB0.69 million respectively, and the aggregate unpaid amount by our Group to the housing fund authority for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 would be approximately RMB0.69 million, RMB1.00 million, RMB1.14

## RISK FACTORS

million and RMB0.31 million respectively. We have made relevant provisions in our Group's consolidated accounts. In hope to settle the outstanding social insurance and housing fund contributions, we and our PRC Legal Advisers consulted the local social insurance and housing fund authorities in Jiaxing, Zhejiang Province of the PRC respectively. Our PRC Legal Advisers have advised, based on such consultation, that the social insurance authority would not accept our payments for the outstanding social insurance contributions, and the housing fund authority would only accept our payments of RMB6,433 for the outstanding housing fund contributions. We have therefore paid the sum of RMB6,433 in full to the housing fund authority in July 2010.

As advised by our PRC Legal Advisers, under the relevant laws and regulations of the PRC, we may be ordered by the relevant social insurance authority to pay the outstanding social insurance contributions within a prescribed time limit, and a late charge at a daily rate of 0.2% on the outstanding contributions may be imposed if such payment is not made within the prescribed time limit. In respect of the housing fund, we may be ordered by the relevant housing fund authority to pay the outstanding housing fund contributions and a late charge at a daily rate of 0.1% on the outstanding contribution may be imposed on us. Our PRC Legal Advisers have also advised that in case an employee of our Group succeeds in labour dispute against us with respect to the outstanding social insurance and housing fund contributions, we may be required to make such outstanding contributions to such employee, the maximum amount of which was estimated to be RMB8.1 million in aggregate as of 30 April 2010.

Although the relevant authorities do not accept our full payments for the outstanding social insurance and housing fund contributions, we cannot assure that we will not be subject to an order from the relevant authority to make contributions to such employee benefits in the future. If we are considered by any authority to have failed to fully comply with any of such employee benefits requirements, we may be subject to penalties and administrative sanctions and we may be required to make such contributions retrospectively, which could adversely affect our financial condition and results of operations.

### **We may not be successful in identifying, acquiring or merging with suitable business targets, which could adversely affect our growth and revenue**

Under our plans of expansion, we may enter into arrangements with business partners, acquisition targets and raw materials or equipment suppliers. Such arrangements may be subject to the completion of due diligence, numerous regulatory restrictions and approvals, negotiations of definitive agreements, and our ability to compete with other entities to attract the target parties. As such, there is no assurance that in the future we will be able to identify and enter into arrangements with suitable business partners or acquisition targets on commercially acceptable terms, if at all, or will have sufficient capital to fund such arrangements. Failure in identifying and entering into viable arrangements with suitable targets in the future could adversely affect our growth.

Further, even if we were successful in entering into arrangements with such targets, we cannot assure that the relationships with such partners or suppliers will result in a positive impact on our revenue, nor can we assure that such arrangements would not be terminated before we can derive all the anticipated benefits. Should that be the case, we may not be able to generate a return on our investment or recover our investment and we may also be forced to incur extra costs in terms of potential compensations or damages for early termination under the relevant contracts, and thus, our business operations and financial condition may be adversely affected.

## RISK FACTORS

### RISKS RELATING TO THE INDUSTRY WHICH WE OPERATE IN

#### **We face competition from domestic companies, which may affect our market share and profit margins**

Our main competition in this industry stems from a few large domestic companies. In particular, according to the SAI Report, China National Petroleum Corporation (“**CNPC**”) and China Petroleum and Chemical Corporation (“**Sinopec**”) are the two largest manufacturers of ethylene oxide in the PRC, and have the ability to influence the market price of ethylene oxide. Such competition may potentially affect our market share and profit margins. We may, if necessary, have to lower the selling price of our products to cater with such competitions. In addition to their price setting capabilities, they may also have greater access to global financial and personnel resources, as well as better clienteles and networks than us. Therefore, we cannot guarantee that we would be able to compete directly, and maintain our existing profit levels or sustain our market share in face of their competitions.

If we fail to maintain our competitiveness by continuing to expand our productions and maintaining the quality and efficiency of our existing productions, or if more competitors enter the market, we could be forced to lower our product prices, or lose sales, causing a decline in profitability, leading to adverse effects to our business operations and financial condition.

#### **Fluctuations in the prices of crude oil and refined products may adversely impact our profit margins and results of operations**

The market for ethylene oxide is highly influenced by the price of ethylene, a product derived from crude oil. In particular, the prices of ethylene corresponded closely with that of crude oil and rose to its highest price at approximately USD 1,700 per MT in July 2008 and dropped sharply by approximately 75% to approximately USD 430 per MT in the short period of approximately five months. Therefore, it is likely that the prices of crude oil will affect that of ethylene to a significant extent, posing potential threat to the costs of raw materials for our operations. Historically, international prices for crude oil and refined products have fluctuated widely in response to factors including, but not limited to, the economic and political developments in crude oil producing regions and the global economic conditions. We do not and will not have any control over such factors affecting the international prices for crude oil and refined products. As such, crude oil prices may in essence cause significant adverse effect on our operations in relation to the costs of raw materials.

#### **Our operations may be adversely affected by the existing or future PRC laws and regulations**

We operate in an industry that is heavily regulated by the PRC laws and regulations and are required to obtain and maintain various licences and permits in order to commence and operate our business at each of our production plants in the PRC, including the Certificate of Approval for Production and Storage of Hazardous Chemicals (危險化學品生產、存儲批准證書) issued by Jiaxing Administration of Work Safety (嘉興市安全生產監督管理局), the Safety Production Permit (安全生產許可證) issued by Zhejiang Administration of Work Safety (浙江省安全生產監督管理局), the National Production Licence for Industrial Products (全國工業產品生產許可證) issued by the Zhejiang Administration of Quality Supervision, Inspection and Quarantine (浙江省質量監督檢驗檢疫總局), and the Hazardous Chemical Operation Licence (危險化學品經營許可證) issued by Jiaxing Administration of Work Safety. We are also required to obtain approval from the competent governmental authorities in the PRC for our production projects of ethylene oxide, liquefied industrial gases and surfactants. The

## RISK FACTORS

revocation of or failure to obtain or renew our licences and permits could force us to temporarily or permanently suspend some or all of our production activities, which could disrupt our operations and adversely affect our business.

Moreover, our operations are also subject to several environmental and safety approvals from the PRC government. In particular, we must seek approval from the environment protection bureau of the local counterparts before we may commence production in our production facilities. Failure to comply with such regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licences or permits to conduct our business. These approval processes are potentially time consuming and may require significant financial resources. We cannot assure that the PRC will not impose additional or stricter laws or regulations, the compliance of which may cause us to incur further significant expenses which we may be unable to pass on to our customers, and may take significant time which may delay our project construction and operation schedule in relation to our expansion plans.

In addition, since the crude oil industry is highly influential to our operations in terms of costs of raw materials, any regulatory change that may affect the crude oil prices will potentially increase our production costs, and as a result, we may suffer from lower profitability, leading to poor performances or financial distress.

### **RISKS RELATING TO CONDUCTING BUSINESS IN CHINA**

#### **Changes in China's economic, political and social conditions and government policies may have an adverse effect on us**

Substantially all of our assets and operations are located in China and all of our revenue is derived from China. Accordingly, our business operations and prospects are subject, to a significant degree, to the economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in a number of respects, including structure, degree of government involvement, level of development, control of capital investment, growth rate, control of foreign exchange and allocation of resources. Our products can be used across several industries, and each industry may experience different changes in government policies and regulations at any time.

Before its adoption of reform and open door policies in the late 1970s, China was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and the government itself. These reforms have resulted in significant economic growth and social progress. However, despite such transformation, the PRC government continues to play a significant role in regulating various industries by imposing industrial policies and continually adjusting economic reform measures. As such, we cannot assure that we may be able to benefit from all, or any, of the measures that are under continuous adjustments. In addition, we cannot predict whether changes in the political, economic and social conditions in the PRC or changes in the laws, regulations and policies promulgated by the PRC government will have any adverse effect on our current or future business, financial condition and results of operations.

## RISK FACTORS

**Any significant change in, or promulgation of, laws and regulations may increase our costs of production, and our failure to comply with any of these developments could result in legal liabilities for us**

Our operations are subject to the PRC laws and regulations, which include, but are not limited to laws and regulations governing product safety, chemical manufacturing business, foreign investment, labour and insurance matters, tax, levy, tariff, foreign exchange and environmental protection. Any significant change in the scope or application of these laws or regulations or any promulgation of new laws and regulations may increase our costs of production and profit margins (as the case may be) and have an adverse effect on our financial condition and results of operations. In particular, according to the Tariff Implementation Plans in 2007, 2008 and 2009 which were promulgated by the Tariff Commission of the State Council (國務院關稅稅則委員會) and became effective on 1 January of the respective years, although the preferential national tariff rate for the imported ethylene was set at 2% in the respective years, a provisional tariff rate of 0% was implemented which means the effective tariff rate applicable to the imported ethylene was 0% in 2007 to 2009 rather than 2%. However, in 2010, according to the 2010 Tariff Implementation Plan which was promulgated by the Tariff Commission of the State Council and became effective on 1 January 2010, the preferential national tariff rate for the imported ethylene remains at 2% but no provisional tariff rate is implemented. Therefore, the effective tariff rate applicable to the ethylene imported by our Group is 2% in 2010. The tariff rate may be adjusted by the Tariff Commission of the State Council from time to time. Further, the production safety and environmental regulations and their implementation regulations govern the operations of our business. Any failure to comply with such laws and regulations could result in fines, suspension of operations, loss of any licences, penalties or lawsuits. There can also be no assurance that the government in China will not impose additional or stricter laws or regulations in the future, which could give rise to significant compliance costs that we may be unable to pass on to our customers.

**The legal system of the PRC is not fully developed, and there are inherent uncertainties which may affect the protection afforded to our business and our Shareholders**

Most if not all of our business and operations are governed by the legal system of China. The PRC legal system is based on written statutes. Prior court decisions may be used for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations that had the effect of enhancing the protections afforded to corporate organisations and their governance, as well as various forms of foreign investments in China. However, since these laws and regulations are relatively new and as the PRC legal system continues to evolve rapidly, the interpretation and enforcement of these laws, regulations and rules involves significant uncertainty and different degrees of inconsistency, limiting potentially the available legal protections to our business operations. In addition, the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms. Therefore, it is difficult to evaluate the outcome of administrative and court proceedings and the actual level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith, and may affect our ability to realise our contractual and tort rights. Further, we cannot predict the effect of future legal developments in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-exemption of local regulations by national laws. We cannot therefore assure that we will enjoy the same level of legal protection in the future, nor such new laws and regulations will not affect our operations, causing adverse effects on our financial condition and results.

## RISK FACTORS

**The global financial markets have experienced significant deterioration and volatility in the past two years, which have negatively impacted the global economy, any further downturn may adversely affect our financial condition and results of operations**

For the past two years, the global financial markets have been affected by a general slowdown of economic growth in both the U.S. and globally, resulting in substantial volatility in global equity securities markets and tightening of liquidity in global credit markets. While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments may continue to present risks to our business operations for an extended period of time, including a potential slowdown in our chemical supplies to customers, increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to us. The availability of credit to entities, such as ourselves, operating within emerging markets, is significantly influenced by the levels of investor confidence in such markets as a whole and any factors that may impact market confidence. Such factors may range from a mere decrease in credit ratings to a state or central bank intervention in a market. Since the start of the financial crisis, investors have grown more sensitive to market information, especially in relation to any credit difficulties. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads in credit markets, a reduction in available financing and a tightening of credit terms. Even though the market has been under positive adjustments since late 2009, it is difficult to predict whether such growth or recovery will persist and how long the after effect of the financial crisis will continue to affect our business and the global economy as a whole.

Should there be a further economic downturn or credit crisis for any reason, our ability to borrow funds from current or other funding sources may be further limited, causing our continued access to funds to become more expensive, which would materially and adversely affect our business, liquidity, results of operations, financial condition, and most importantly, our expansion projects. Moreover, apart from our access to funds, further economic downturn will also affect our customers, and may in turn reduce the demand for our products or affect their abilities to settle amounts owed to us in respect of previously supplied chemical products. As such, we cannot assure that our business operations will not suffer further adverse effects caused by the previous or future credit crisis in the near future.

**Changes in foreign exchange regulations and fluctuations in the value of the Renminbi could have an adverse effect on our financial results and our ability to distribute dividends**

Our purchases of raw materials are mostly settled in U.S. dollars. During the Track Record Period, approximately 70%, 65%, 64% and 73% of our Group's total raw materials cost was settled in foreign currencies. We recorded net foreign exchange gain of approximately RMB12.4 million, RMB18.2 million and RMB0.9 million during the three years ended 31 December 2009 and net foreign exchange loss of approximately RMB0.7 million for the four months ended 30 April 2010.

The Renminbi is currently not a freely convertible currency, and the valuation of which is subject heavily to changes in the PRC government's policies and depends largely on domestic and the global and economic developments, as well as the supply and demand in the local currency market. As evident from past events, the PRC government's adjustments in the currency policies have seen the Renminbi appreciate in comparison to other currencies, namely the U.S. dollars. Between 1995 and 21 July 2005, the conversion into foreign currencies, including Hong Kong and U.S. dollars, was based on the exchange rates published by the PBOC. During that period, the official exchange rate for the conversion of Renminbi into U.S. dollars was generally stable. However, since 21 July 2005, the PRC government changed its old policy by re-pegging the Renminbi to a basket of currencies determined by the PBOC,

## RISK FACTORS

rather than to the U.S. dollars alone. As a result of that adjustment, the Renminbi was revalued and appreciated against U.S. dollar immediately by approximately 2%. Moreover, following the PRC government's decision to widen the daily trading band for Renminbi against non-U.S. dollar currencies, the Renminbi further appreciated approximately 20% against U.S. dollars over the following three years. However, there can be no assurance that such exchange rate or growth in the Renminbi will remain stable against the U.S. dollar or any other foreign currencies in the future. To date, we have not entered into any hedging arrangements or transactions to reduce our exposure to foreign exchange risks. While we may decide to enter into hedging arrangements or transactions in the future, the availability and effectiveness of the same may be limited, and we may not be successful in hedging our exposure. As such, we are and will be subject to constant foreign exchange risks in the future. Any significant change in the exchange rates of the Renminbi against the U.S. dollar or the Hong Kong dollar could adversely affect the value of our dividends, which are to be funded by Renminbi but paid in Hong Kong dollars. Further, as we settle our payments for our purchases of ethylene in U.S. dollar, any fluctuations in the Renminbi to U.S. dollar exchange rate may affect our import price of ethylene, the principal raw material for our manufacture of ethylene oxide, and may adversely affect our profit margin and financial results.

In addition, conversion of Renminbi is still strictly regulated by the PRC government. Even though the PRC government has moderately relieved the restrictions under the current foreign exchange regulations, there can be no assurance that the PRC government will not adjust and impose further restrictions on the conversion of Renminbi into foreign currencies. In essence, although under the existing foreign exchange regulations in the PRC, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements (except for foreign exchange transactions on our capital account), we cannot guarantee that the same regulations will be in place in the future. As such, our investors may be at risk of further potential restrictions, at the PRC government's discretion, in relation the availability of dividends and the amounts thereof.

### **It may be difficult to effect service of process or to enforce foreign judgments in the PRC**

A substantial amount, if not all, of our assets are located in the PRC. Further, the majority of our Directors and officers reside in the PRC as well as their personal assets. Therefore, investors may encounter difficulties in effecting service of process from outside China upon us or most of our Directors and officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. A judgment of a court from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with China or if the judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements. However, China does not have treaties with Japan, the United Kingdom, the United States and most other countries providing for the reciprocal enforcement of judgments. Also, Hong Kong has no arrangement for reciprocal enforcement of judgments with the United States, causing uncertainties in relation to the enforcement of foreign judgments.

## RISK FACTORS

**The outbreak of any severe contagious diseases, natural disasters, acts of war, political unrest and other related events in the PRC, if uncontrolled, could adversely affect our business and results of operations**

The outbreak of any severe communicable disease in the PRC could have severe effects on the overall business sentiments and environment in the PRC, and may in turn lead to a slower economic growth in the PRC economy. Examples of such contagious diseases may include Severe Acute Respiratory Syndrome (“SARS”), and also more recently, the H1N1 Influenza (originally referred to as the swine flu), as discovered in April 2009. As evident from past events, the outbreak of such major diseases, especially SARS in 2003 has caused significant damage to the global economy, slowing down economic growth in the whole world. As such, recurrence or outbreak of any types of similar diseases may cause such damage to the global market, causing a worldwide slowdown in the levels of economic activity, and may in turn adversely affect our results of operations and the price of our Shares.

Moreover, political unrests, acts of war, terrorist attacks and natural disasters may cause damage or disruption to the PRC economy as a whole, and/or our operations, employees and production facilities, and in turn causing adverse effects on our sales, costs of raw materials, our financial condition and results of operations. This is evident from previous events of terrorist attacks globally, the 8.0 magnitude earthquakes in Sichuan and also the 2004 tsunami events. We cannot control the occurrence of these catastrophic events and our business operations will at all times be subject to the risks of these uncertainties.

### **RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES**

**There has been no prior public market for our Shares, and an active trading market may not develop after Global Offering**

Prior to the Global Offering, there has been no public market for our Shares. The Offer Price of our Offer Shares will be determined by agreement between the Joint Bookrunners (on behalf of the Underwriters) and us. The Offer Price may differ from the market price of our Shares after the Global Offering. While we have applied to have our Shares listed on the Stock Exchange, we cannot guarantee that such application will result in the development of an active or liquid trading market for our Shares following the Global Offering or in the future.

**The Offer Price may not be indicative of prices that will prevail in the trading market and such market prices and the liquidity of our Shares following the Global Offering could be volatile**

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, announcement of new investments and expansions, strategic alliances and/or acquisitions and fluctuations in market price of our products and services or fluctuations in market prices for companies in our industry or other related industry could cause the market price of our Shares to change substantially. Any such development could lead to significant and sudden changes in the volume and price at which our Shares will trade. We cannot assure that such development will not occur. In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations for various reasons. As a result, our Share prices are subject to price fluctuations that may not be directly related to our financial or business performance.

## RISK FACTORS

**Our profit estimate only covers the six months ended 30 June 2010 and may not necessarily give a fair reflection of our full year financial results in 2010**

We have prepared our profit estimate for the six months ended 30 June 2010 based on certain assumptions and estimates. However, as our products are constantly subject to changes in market demand and fluctuation in prices of raw materials, in particular, ethylene, the price of which fluctuates closely with that of crude oil, we cannot guarantee that our profit for the full financial year will be in line with that of the six months ended 30 June 2010. Alternatively, we cannot assure that our profit estimate will provide a fair reflection of our annual performance and therefore, should not be interpreted as a guidance to our full year financial results for the year 2010. Please refer to the section headed “Profit estimate” as set out in Appendix III to this prospectus for further details on our profit estimate.

**We rely on dividend payments from our subsidiaries located in the PRC for funding our dividend payments, servicing our indebtedness and meeting our working capital and other capital needs**

We are a holding company and conduct our core business operations through our operating subsidiaries in China. Therefore, the availability of funds to us to pay dividends to our Shareholders, to service our indebtedness and to meet our working capital and other capital needs depends upon dividends received from our subsidiaries. If our subsidiaries in China incur debt or losses, such indebtedness or losses may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends, service our indebtedness and meet our working capital and other capital needs will be restricted. The PRC laws permit payment of dividends only out of net income as determined in accordance with PRC accounting standards and laws and regulations. Our PRC subsidiaries are required to set aside a portion of their net income each year to fund certain statutory reserve funds and other kinds of funds in accordance with the relevant PRC laws and regulations. These reserves are not distributable as cash dividends. As a result, our primary source of funds for dividend payments is subject to these and other legal restrictions and uncertainties. In addition, restrictive covenants in bank credit facilities, joint venture agreements or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to make dividend payments to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders, to service our indebtedness and to meet our working capital and other capital needs.

**Our current dividend policy and our historical dividend payment should not be taken as an indication of our future ability to pay dividends and we may not be able to pay any dividends in the future**

Our Company may declare dividends in Hong Kong dollars to be paid to our Shareholders in general meetings but no dividends may be declared in excess of the amount recommended by our Board. Our Company may also make a distribution to our Shareholders out of share premium in general meetings. No dividend or distribution may be paid out of share premium unless immediately following the date on which the distribution or dividend is proposed to be paid, our Company will be able to pay its debts as they fall due in the ordinary course of business.

## **RISK FACTORS**

**We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to the PRC and any provinces, cities or regions thereof contained in this prospectus, the reliability of which cannot be assumed or assured**

Certain facts and statistics in this prospectus relating to the PRC, its economy and the industries which we operate in the PRC are derived from official government publications generally believed to be reliable. While we have taken reasonable care to reproduce such information, we cannot guarantee the quality or reliability of such materials. These facts and statistics have not been prepared or independently verified by us, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners or the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, or materials prepared based on such facts and statistics, such as those published by the National Bureau of Statistics of China, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other difficulties, the statistics presented in this prospectus may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

**Forward looking statements contained in this prospectus are subject to risks and uncertainties**

This prospectus contains statements that are forward-looking and uses words typically used for forward-looking statements such as “will,” “expect,” “estimate,” “anticipate,” “plan,” “believe,” “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar terms. Purchasers of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties in this regard, including those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans and objectives will be achieved.

**Any future sale of our Shares by our existing Shareholders (including the Independent Investors) could have an adverse effect on the market price of our Shares**

Future sales of a substantial number of our Shares by our existing Shareholders (including the Independent Investors), or the possibility of such sales, could negatively impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate.

There are generally no restrictions imposed on our existing Shareholders to sell or otherwise dispose of their Shares save that the Shares held by Sure Capital and the Independent Investors are subject to certain lock-up periods commencing from the date by reference to which disclosure of Sure Capital’s shareholding is made in this prospectus (in the case of Sure Capital) and from the date of the Hong Kong Underwriting Agreement (in the case of the Independent Investors). We are not in a position to give any assurance that any or all of our existing Shareholders will not dispose of any Shares they may own now or in the future.

## RISK FACTORS

**The Offer Price per Offer Share is higher than the net tangible book value per Share, and, consequently, purchasers of our Shares will incur immediate dilution**

The Offer Price of our Shares is higher than the net tangible book value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in the pro forma combined net tangible book value of HK\$0.96 per Share (assuming an Offer Price of HK\$2.88, which is the mid-point of the indicative range of the Offer Price of HK\$2.38 to HK\$3.38 per Share), and our existing Shareholders will receive an increase in the net tangible book value per Share in respect of their Shares. If we issue additional Shares in the future, purchasers of our Shares may experience further dilution.

**You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or disseminated through other media relating to us and/or the Global Offering, some of which may not be consistent with the information contained in this prospectus**

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, the disclosure of which has not been authorised by us but included certain financial information, projections, valuations and other information about us (the “**Unauthorised Information**”). We wish to emphasise to potential investors that we do not accept any responsibility for any such Unauthorised Information. The Unauthorised Information was not sourced from or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the Unauthorised Information. To the extent that any of the Unauthorised Information is inconsistent with, or conflicts with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions based solely on the information contained in this prospectus and should not rely on any of the Unauthorised Information.

## FORWARD-LOOKING STATEMENTS

This prospectus contains, and the documents incorporated by reference herein may contain, forward-looking statements representing our goals, and actual results or outcomes may differ materially from those expressed or implied. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Forward-looking statements typically can be identified by the use of words such as “will”, “expect”, “estimate”, “anticipate”, “plan”, “believe”, “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar terms. Although we believe that our expectations are reasonable, we can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. These forward-looking statements include, but are not limited to, statements relating to:

- our business and operating strategies and the various measures we use to implement such strategies;
- our dividend distribution plans;
- our capital commitment plans;
- our operations and business prospects, including development plans for our existing and new businesses;
- the future competitive environment for the industry which we operate in;
- the regulatory environment as well as the general industry outlook for the industry which we operate in;
- future developments in the industry which we operate in; and general economic trends in China.

The words “will”, “expect”, “estimate”, “anticipate”, “plan”, “believe”, “may”, “intend”, “ought to”, “continue”, “project”, “should”, “seek”, “potential” and other similar expressions, as they relate to us (other than in relation to our profits, results of operations and earnings), are intended to identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Please refer to the sections headed “Risk factors”, “Business” and “Financial information” in this prospectus for more details.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from the goals we have expressed or implied in these forward-looking statements. Except as required by applicable laws and regulations, including the Listing Rules, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should not place undue reliance on any forward-looking information.

In this prospectus, statements of or references to our intentions or those of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

## **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of the SFO and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading, there are no other facts the omission of which would make any statement in this prospectus misleading, and all opinions expressed in this prospectus have been arrived at after due and careful consideration and are formed on bases and assumptions that are fair and reasonable.

## **THE GLOBAL OFFERING**

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms set out the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of initially 25,240,000 Hong Kong Offer Shares and the International Placing of initially 227,160,000 International Placing Shares (subject, in each case, to adjustment on the basis described in the section headed “Structure of the Global Offering” in this prospectus).

The Global Offering is jointly sponsored by BOCOM Asia and Daiwa. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Bookrunners (on behalf of the Underwriters) and our Company on the Price Determination Date. The Global Offering is managed by BOCOM Securities as the Sole Global Coordinator. For further details of the Underwriters and underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

## **DETERMINATION OF THE OFFER PRICE**

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by agreement between the Joint Bookrunners (on behalf of the Underwriters) and our Company on the Price Determination Date.

**If, for whatever reason, the Joint Bookrunners (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, the Global Offering will not become unconditional and will lapse immediately.**

## **RESTRICTIONS ON SALE OF THE OFFER SHARES**

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Hong Kong Public Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by us, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Underwriters or any of their respective directors or any other persons or parties involved in the Global Offering.

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit any public Offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the PRC, the U.S. or the Cayman Islands.

The following information is provided for guidance only. Prospective investors of the Offer Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective investors of the Offer Shares should inform themselves as to the relevant legal requirements of applying any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

### **Australia**

The Offer Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitation to subscribe for or buy the Offer Shares may be issued, and no draft or definitive prospectus, offering memorandum, advertisement or other offering material may be distributed relating to any Offer Shares in the Commonwealth of Australia or to any resident of Australia except where such offer falls within the circumstances described in section 708(8) of the Corporations Act 2001 (Corporations Act) or to such persons as are described in section 708(11) of the Corporations Act.

### **Cayman Islands**

The Offer Shares may not be offered to the public in the Cayman Islands.

### **European Economic Area**

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive or for which the provisions of the Prospectus Directive have direct effect under local law because that member state failed to implement the Prospectus Directive in time, each referred to as a Relevant Member State, with effect from the including the date on which the Prospectus Directive is

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

implemented in the Relevant Member State, or the Relevant Implementation Date, the Offer Shares have not been and will not be offered in that Relevant Member State except that, with effect from and including the Relevant Implementation Date, an offer of Offer Shares may be made in a Relevant Member State under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) in the period beginning on the date of publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive; or
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; or
- (c) at any time to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year, (ii) a total balance sheet of more than Euro 43,000,000 and (iii) an annual net turnover of more than Euro 50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Underwriters; or
- (e) at any time in any other circumstances which do not require the publication of a prospectus under article 3 of the Prospectus Directive.

Each subscriber for or purchaser of Offer Shares described in this prospectus located within a Relevant Member State will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purpose of this provision, the expression “an offer of Offer Share” in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in the member state by any measure implementing the Prospectus directive in that member state and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing means in each Relevant Member State.

### Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law. No 25 of 1948 as amended) (the “FIEL”) and disclosure under the FIEL has not been and will not be made with respect to the Offer Shares. Accordingly, the Offer Shares may not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

compliance with, the FIEL and other relevant laws, regulations and governmental guidelines of Japan. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organised under the laws of Japan.

### **Korea**

The Offer Shares may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Financial Investment Services and Capital Markets Act and the Foreign Exchange Transaction Law and the decrees and regulations thereunder. The Offer Shares have not been registered with the Financial Services Commission of Korea for public offering in Korea. Furthermore, the Offer Shares may not be re-sold to Korean residents unless the purchaser of the Offer Shares complies with all applicable regulatory requirements (including but not limited to government approval requirements under the Foreign Exchange Transaction Law and its subordinate decrees and regulations) in connection with their purchase.

### **People’s Republic of China**

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident in the PRC, or offered or sold to any person for reoffering or re-sale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

### **Singapore**

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. This prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be directly or indirectly issued, circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Offer Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares, as the case may be, pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor under Section 274 of the SFA or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law; and/or
- (4) as specified in Section 276(7) of the SFA.

### Switzerland

The Offer Shares may not be publicly offered, distributed or redistributed on a professional basis in or from Switzerland, and neither this prospectus nor any other solicitation for investments in the Offer Shares may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 652a or 1156 of the Swiss Code of Obligations (“CO”). This prospectus or any part thereof may not be copied, reproduced, distributed or passed on to others without the Company's prior written consent. This prospectus is not a prospectus within the meaning of Articles 652a and 1156 CO or a listing prospectus according to Article 32 et seq. of the Listing Rules of the SIX Swiss Exchange and may not comply with the information standards required thereunder. The Company will not apply for a listing of the Offer Shares on any Swiss stock exchange.

### United Kingdom

This prospectus does not constitute a prospectus for the purpose of the prospectus rules issued by the United Kingdom Financial Services Authority (“FSA”) pursuant to section 84 of the Financial Services and Markets Act 2000 (as amended) (“FSMA”) and has not been approved by or filed with the FSA. The Offer Shares may not be offered or sold and will not be offered or sold to the public in the United Kingdom (within the meaning of section 102B of the FSMA) save in circumstances where it is lawful to do so without an approved prospectus (within the meaning of section 85 of FSMA) being made available to the public before the offer is made. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any Offer Shares except in circumstances in which section 21(1) of FSMA does not apply to the Company. This prospectus is directed only at (i) persons outside the United Kingdom; or (ii) persons who are “qualified investors” (within the meaning of Article 2(1)(e) of the Prospectus Directive 2003/71/EC) (a) who have professional experience in matters relating to investments who fall within the definition of “investment professionals” in article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) order 2005 (as amended) (the “FPO”); and/or (b) who are high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in article 49 of the FPO or persons who fall within another exemption to the FPO. Any investment or investment activity to which this prospectus relates is only available to and will only be engaged in with such persons and any person who does not fall within (i) and (ii) above should not rely on or act upon this prospectus.

## **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Capitalisation Issue and upon the exercise of options which may be granted under the Share Option Scheme.

Dealings in our Shares on the Stock Exchange are expected to commence on Thursday, 16 September 2010. Except as disclosed herein, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

## **ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

## **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisers if you are in any doubt as to the tax implications of subscription for, purchasing, holding or disposing of and dealing in our Shares under the laws of the place at your operations, domicile, residence, citizenship or incorporation. We emphasise that none of our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Global Offering accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchase, holding or disposal of or dealing in our Shares.

## **OVER-ALLOTMENT AND STABILISATION**

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for or purchase the newly issued securities in the secondary market during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the commencement of trading in the Shares of our Company on the Stock Exchange. Such transactions will be effected in compliance with all applicable laws, rules and regulations in place in Hong Kong. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time during the stabilising period, which will begin on the date of the International Placing Agreement and end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. As a result, demand for our Shares, and their market price, may fall after the end of the stabilising period.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes (i) over-allocation of shares for the purpose of preventing or minimising any reduction in the market price of shares, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of shares, (iii) subscribing, or agreeing to subscribe, for shares pursuant to an option or other right in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, shares pursuant to an option or other right in order to close out any positions established under (i) or (ii) above, (v) selling shares to liquidate a long position established and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 37,860,000 Shares, which is approximately 15% of the new Shares of our Company initially available under the Global Offering.

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Stabilising Manager, or any person acting for it, may maintain a long position in our Shares. The size of the long position and the period for which the Stabilising Manager, or any person acting for it, will maintain the long position are at the discretion of the Stabilising Manager and are uncertain. Investors should be warned that, in the event that the Stabilising Manager liquidates this long position by making sales in the open market, this may lead to decline in the market price of our Shares.

Any stabilising action taken by the Stabilising Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Stabilising bids for or market purchases of the Shares by the Stabilising Manager, or any person acting for it, may be made at or below the Offer Price and can therefore be made at or below the price paid for the Offer Shares by applicants for, or investors in, the Offer Shares.

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilising Manager may require our Company to over-allocate up to and not more than an aggregate of 37,860,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or combination of these means. In particular, for the purpose of covering such over-allocations, the Stabilising Manager may borrow up to 37,860,000 Shares from BOCOM Holdings, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

The terms of the Stock Borrowing Agreement will be in compliance with the requirements set out in Rule 10.07(3) of the Listing Rules and will therefore not be subject to restrictions under Rule 10.07(1)(a) of the Listing Rules. The principal terms of the Stock Borrowing Agreement are set out below:

- the stock borrowing arrangement will only be effected by the Stabilising Manager (or its affiliates) for settlement of over-allocations in connection with the International Placing;
- the maximum number of Shares to be borrowed by the Stabilising Manager (or its affiliates) from BOCOM Holdings will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed will be returned to BOCOM Holdings not later than the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, and (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- no payments will be made to BOCOM Holdings in relation to the stock borrowing arrangement.

### HONG KONG SHARE REGISTER AND STAMP DUTY IN HONG KONG

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company's register of members to be maintained in Hong Kong.

Dealings in the Shares will be subject to Hong Kong stamp duty.

Unless otherwise determined by our Company, dividends payable in HK dollars in respect of Shares will be paid to the shareholders listed on the Hong Kong share register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each Shareholder.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The application procedure for the Hong Kong Offer Shares is set out in the section headed “How to apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

### **ROUNDING**

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### DIRECTORS

Name	Address	Nationality
------	---------	-------------

#### Chairman and Executive Director

GUAN Jianzhong	Room 1802, Block 1 Jia Jing Yuan Yucui Road Xiaoshan District Hangzhou City Zhejiang Province PRC	Chinese
----------------	---	---------

#### Other Executive Directors

HAN Jianhong	Room 1802, Block 1 Jia Jing Yuan Yucui Road Xiaoshan District Hangzhou City Zhejiang Province PRC	Chinese
--------------	---	---------

NIU Yingshan	Room 502, Unit 2, Block 9 Duo Ling Jing Yuan Nanwan Road North Jiaxing Port Area Pinghu City Zhejiang Province PRC	Chinese
--------------	--	---------

HAN Jianping	Room 1802, Unit 1, Block 16 Xin Bai Ma Apartment Beigan Street Xiaoshan District Hangzhou City Zhejiang Province PRC	Chinese
--------------	--	---------

<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
--

Name	Address	Nationality
<b>Independent Non-executive Directors</b>		
WANG Wanxu	Room 1, Unit 2, Block 9 30 Wenyuan Lane Yingzhe District Taiyuan City Shanxi Province PRC	Chinese
SHEN Kaijun	Room 501, Unit 1, Block 1 Zhong Ting Yuan Jin Dou Jing Yuan Zhongshan Road West Jiaxing City Zhejiang Province PRC	Chinese
LI Zhihong	Room 402, Unit 8, Block A 58 Nangangzi Street Chongwen District Beijing City PRC	Chinese

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Global Coordinator**

BOCOM International Securities Limited  
9th Floor, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

**Joint Sponsors**

BOCOM International (Asia) Limited  
9th Floor, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

Daiwa Capital Markets Hong Kong Limited  
Level 26, One Pacific Place  
88 Queensway, Hong Kong

**Joint Bookrunners and Joint Lead  
Managers**

BOCOM International Securities Limited  
9th Floor, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

Daiwa Capital Markets Hong Kong Limited  
Level 26, One Pacific Place  
88 Queensway, Hong Kong

**Legal Advisers to our Company**

*as to Hong Kong law:*

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

*as to PRC law:*

AllBright Law Offices  
5/F, Block A, Huahong Building  
No. 238 Tianmushan Road  
Hangzhou City,  
Zhejiang Province 310013, PRC

*As to Cayman Islands law:*

Conyers Dill & Pearman  
Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman KY1 - 1111  
Cayman Islands

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### **Legal Advisers to the Underwriters**

*as to Hong Kong law:*

Jones Day  
29th Floor, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*as to PRC law:*

Jingtian & Gongcheng  
34th Floor, Tower 3, China Central Place  
77 Jianguo Road, Chaoyang District  
Beijing 100025, PRC

### **Auditor and Reporting Accountants**

Ernst & Young  
18th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

### **Property Valuer**

DTZ Debenham Tie Leung Limited  
16th Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

### **Receiving Bankers**

Bank of Communications Co., Ltd.  
Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

Wing Lung Bank Limited  
45 Des Voeux Road Central  
Hong Kong

## CORPORATE INFORMATION

<b>Registered Office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Principal Place of Business in the PRC and Headquarters</b>	Pinghai Road, Jiaxing Port Area, Zhejiang Province, PRC
<b>Principal Place of Business in Hong Kong</b>	40th Floor, Jardine House 1 Connaught Place, Hong Kong
<b>Website</b>	www.jxsjchem.com <sup>(Note)</sup>
<b>Company Secretary</b>	Mr. Yip Ngai Hang, <i>HKICPA</i>
<b>Authorised Representatives for the purpose of the Listing Rules</b>	Mr. Guan Jianzhong Room 1802, Block 1 Jia Jing Yuan, Yucai Road Xiaoshan District Hangzhou City Zhejiang Province PRC  Mr. Yip Ngai Hang Flat E, 16/F, Tower 10 Park Avenue 18 Hoi Ting Road Kowloon Hong Kong  Ms. Chen Xian (alternate to Mr. Guan Jianzhong) Room 101, Block 19 Chengnan Garden Jiaxing City Zhejiang Province PRC
<b>Members of Audit Committee</b>	Mr. Shen Kaijun (Chairman) Mr. Wang Wanxu Mr. Li Zhihong
<b>Members of Remuneration Committee</b>	Mr. Li Zhihong (Chairman) Mr. Wang Wanxu Mr. Guan Jianzhong

## CORPORATE INFORMATION

<b>Compliance Adviser</b>	Daiwa Capital Markets Hong Kong Limited
<b>Principal Share Registrar and Transfer Office in the Cayman Islands</b>	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
<b>Branch Share Registrar and Transfer Office in Hong Kong</b>	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
<b>Principal Bankers</b>	<p>Agricultural Bank of China Pinghu Zhapu Branch 42 Tianfei Road Zhapu District Pinghu City Zhejiang Province PRC</p> <p>Bank of Communications Pinghu City Branch 325 Xinhua Road Pinghu City Zhejiang Province PRC</p> <p>Industrial and Commercial Bank of China Pinghu City Branch 338 Yashan Road Central Pinghu City Zhejiang Province PRC</p> <p>Bank of China Pinghu City Branch 40 Chengnan Road West Pinghu City Zhejiang Province PRC</p>

## CORPORATE INFORMATION

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

China Construction Bank  
Pinghu Zhapu Branch  
1 Tianfei Road  
Zhapu District  
Pinghu City  
Zhejiang Province  
PRC

*Note: The information contained on the website does not form part of this prospectus.*

## INDUSTRY OVERVIEW

**This section contains information derived from various sources. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters or any of their respective directors, affiliates or advisers, nor any other parties involved in the Global Offering and no representation is given as to its accuracy or correctness. The information may not be consistent with information from other sources.**

**Certain information and statistics are extracted from an industry report prepared by Strategic Analysis Inc., dated 27 August 2010, or SAI Report. The information extracted from the SAI Report reflects an estimate of the market conditions based on Strategic Analysis Inc.'s research and analysis. The information extracted from the SAI Report should not be viewed as a basis for investments provided by Strategic Analysis Inc. and references to the SAI Report should not be considered as Strategic Analysis Inc.'s opinion as to the value of any security or the advisability of investing in our Company. While reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics, the same has not been independently verified, and there is no representation as to the accuracy of such statements or information. The information and statistics may not be consistent with other information and statistics compiled within or outside China.**

### SOURCE OF INFORMATION

#### The SAI Report

Our Group commissioned Strategic Analysis Inc., or SAI, an Independent Third Party consultancy firm, to perform an independent research on, among other things, the market conditions of ethylene oxide and non-ionic surfactant products, in particular the AEO surfactants, in China. Whilst there is a commission fee of US\$25,500 involved, the Directors are of the view that the payment of the commission fee does not affect the fairness of conclusions drawn in the SAI Report.

Founded in 1977, SAI is a private consultancy firm with its headquarters in Pennsylvania, the United States. It is an international business research consulting firm with operations in major regions of the world including North America, South America, Europe and Asia. Services provided by SAI include market assessments, competitive benchmarking, strategic and market planning which serve a variety of industries including chemicals, metals, ceramics and automotive industries.

In compiling the SAI report, employees of SAI who specialise in the ethylene oxide/surfactants industry conducted primary and secondary researches in the form of field interviews, market analysis and forecasts on the industry trend and development. Throughout the process, SAI utilised its proprietary, in house data base as well as publicly available published information from government agencies and private organisations in China. According to the SAI Report, all information so collected was cross checked and verified to the extent possible through primary interviews with ethylene oxide and surfactant producers in China.

## INDUSTRY OVERVIEW

All forecasts including forecast value of ethylene oxide and AEO surfactants demand and production set out in the SAI Report are made based on the parameters and assumptions that: in the case of ethylene oxide demand value and production value, a fixed average price of RMB12,286/MT; in the case of AEO surfactants demand value and production value, a fixed average price of RMB13,900/MT; and in both cases, an exchange rate of US\$1=RMB6.83. The fixed average price of ethylene oxide is based on the price fixed by a state-owned company in the PRC, whereas the fixed average price of AEO surfactants is based on data obtained from field interviews conducted by SAI with numerous AEO manufacturers and industry experts.

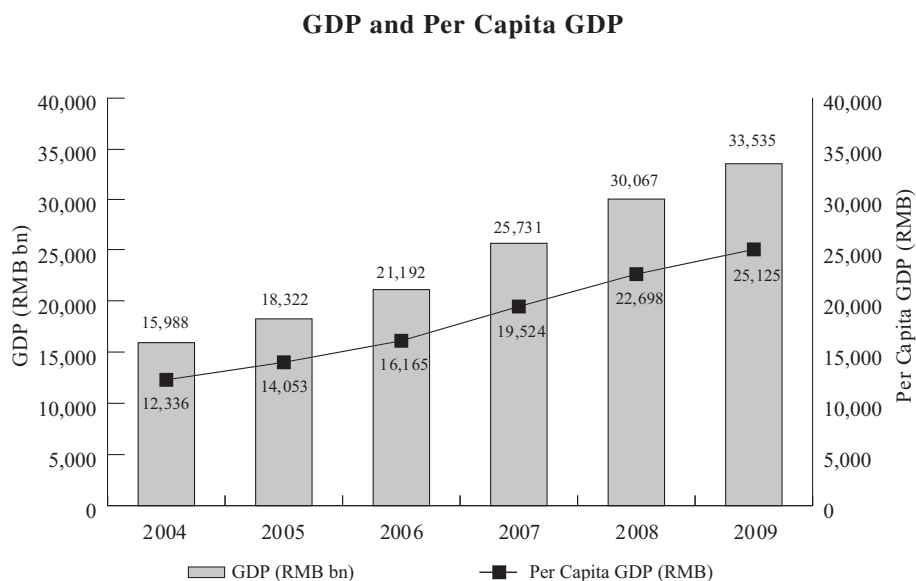
### The National Bureau of Statistics of China

The National Bureau of Statistics of China is an agency directly under the State Council in charge of statistics and economic accounting in China. The National Bureau of Statistics of China is an Independent Third Party. The information disclosed in this prospectus extracted from the National Bureau of Statistics of China is official public information and was prepared in the ordinary course of the National Bureau of Statistics of China's activities.

## OVERVIEW OF THE PRC ECONOMY

### GDP and per capita GDP

Since China's adoption of the open door policy in the late 1970s, it has experienced significant economic growth and social progression. According to the National Bureau of Statistics of China, the national GDP grew from RMB15.99 trillion in 2004 to RMB33.54 trillion in 2009, representing a CAGR of 16.0%. In line with its GDP growth, China's per capita GDP also rose from RMB12,336 in 2004 to RMB25,125 in 2009. The following chart sets forth the PRC's GDP and per capita GDP from 2004 to 2009:



Source: National Bureau of Statistics of China.

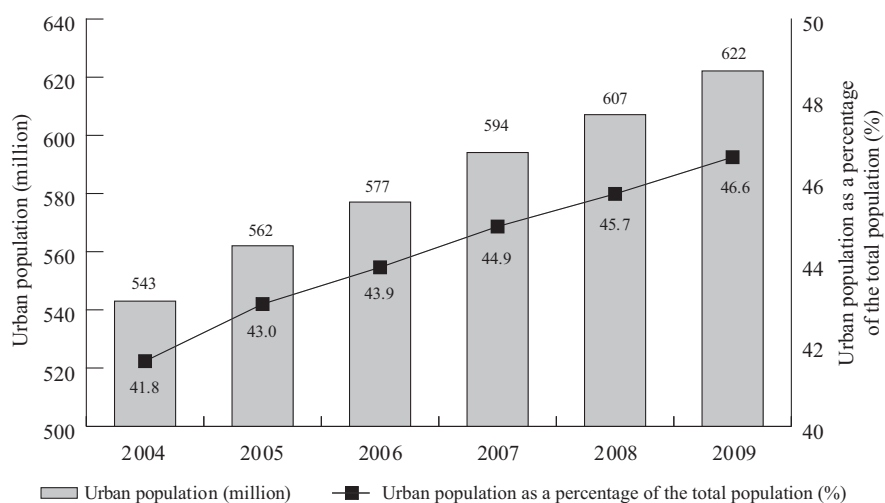
## INDUSTRY OVERVIEW

In view of the global financial crisis which started in late 2008, the PRC government implemented a RMB4 trillion economic stimulus plan in November 2008, which targeted mainly areas of domestic consumption, infrastructures, residential housing etc. As evident from the above figures, the PRC economy has responded positively to the plan, with the nation's GDP boosted by 11.5% in 2009 over that of 2008.

### Urbanisation and annual urban disposable income

The economic growth in China has been accompanied by rapid urbanisation. According to the National Bureau of Statistics of China, the total urban population in China increased from 543 million as of the end of 2004 to 622 million as of the end of 2009, representing a CAGR of 2.8% over the five-year period. Alternatively, the urban population as a percentage of the total population increased from 41.8% to 46.6% during the same period. The following chart sets forth the total urban population and urban population as a percentage of the total population in China as of the end of periods indicated:

**Absolute and relative growth of urban population in China**



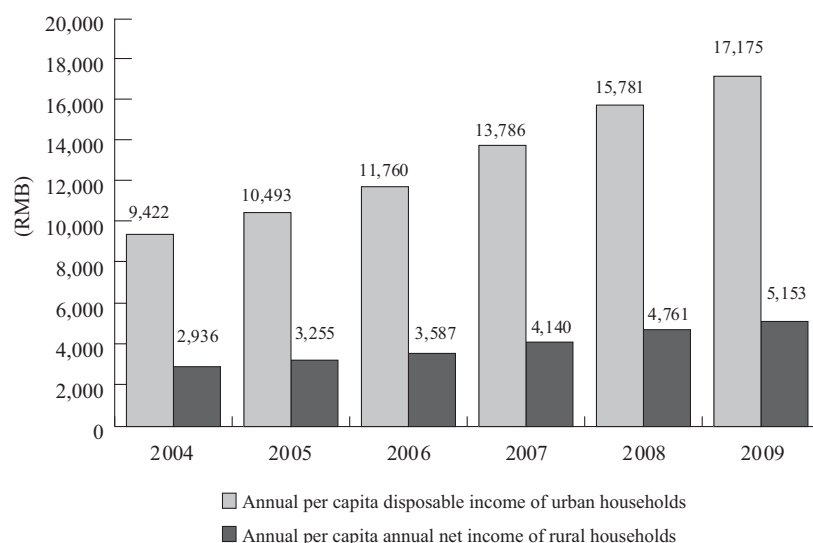
Source: National Bureau of Statistics of China.

Amidst strong GDP and urbanisation growth, annual urban disposable income in China grew rapidly in the six year period between 2004 and 2009. According to the National Bureau of Statistics of China, the annual per capita disposable income of urban households in China increased from RMB9,422 in 2004 to RMB17,175 in 2009, representing a CAGR of 12.8%, implying increased purchasing power for urban households throughout China. Over the same period, the annual per capita disposable income of rural household also increased from RMB2,936 to RMB5,153, representing a CAGR of 11.9%.

## INDUSTRY OVERVIEW

The following chart sets forth the growth in annual disposable income for urban and rural areas from the year end of 2004 to that of 2009:

**Per capita income growth of urban and rural households**

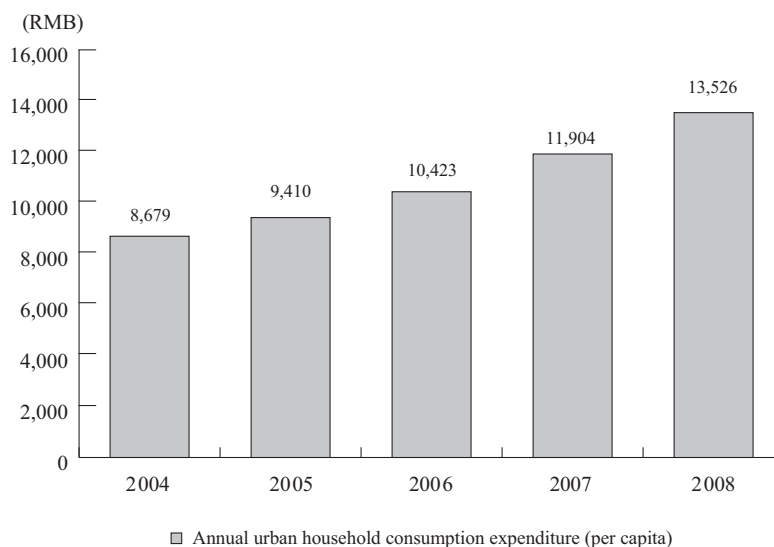


Source: National Bureau of Statistics of China.

### Consumption market in China

In light of the aforementioned growth in urbanisation, annual urban disposable income and hence, purchasing power, the annual total consumption expenditure of urban households has continued to surge during the five year period from 2004 to 2008. According to the National Bureau of Statistics of China, the annual total per capita consumption expenditure of urban households increased from RMB8,679 to RMB13,526 in the same period, representing a CAGR of 11.7%. The following chart sets forth the annual total per capita consumption expenditure of urban households for each of the years indicated:

**Annual per capita urban household consumption expenditure**

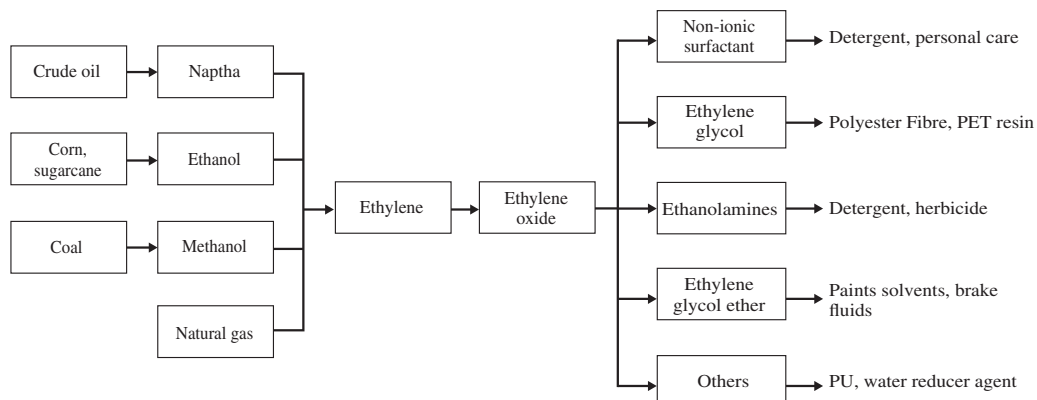


Source: National Bureau of Statistics of China.

## INDUSTRY OVERVIEW

### OVERVIEW OF ETHYLENE OXIDE AND NON-IONIC SURFACTANTS

The following industry value chain sets forth an overview of the position of ethylene oxide in respect of its upstream and downstream markets:



### Ethylene oxide and its applications

Ethylene oxide is an ethylene derivative product which is mainly used for the production of ethylene glycol, ethanolamine, glycol ethers and various series of surfactants in China. Ethylene oxide can also be used as a sterilant, fumigant and fungicide in the manufacture of medical products and spices, and to manufacture antifreeze agent, synthetic detergent, emulsifier, plasticiser, lubricant and rubber and synthetic resin.

Ethylene oxide is produced by catalytically reacting ethylene and oxygen through direct oxidation process. Ethylene oxide is a highly reactive and potentially explosive, colourless, low boiling point liquid or gas with an ether like odour. The following table sets forth the material details of ethylene oxide:

Product category	:	ethylene derivative products
Raw materials	:	ethylene, oxygen
Formula	:	C <sub>2</sub> H <sub>4</sub> O
Synonyms	:	oxirane, epoxyethane
CAS number	:	75-21-8

Please refer to the sections headed “Business – Products and services – Our products – Ethylene oxide” and “Business – Our production – Our production process – Ethylene oxide” in this prospectus for further details on ethylene oxide and its manufacturing process.

## INDUSTRY OVERVIEW

### Surfactants and their applications

Surfactant is a complex substance containing phospholipids and a number of apoproteins. Surfactants are capable of lowering the surface tension of a liquid or the interfacial tension between two liquids. When dissolved in water, surfactants are capable of removing dirt and small loose particles from surfaces such as textiles, human skin, metal and other solids. There are numerous categories of surfactant products, including anionic, cationic, zwitterionic and non-ionic surfactants, each of which are characterised by their type of electric charge and reactivity against water hardness.

AEO surfactants are one of the main surfactant products within the non-ionic surfactants category, and are primarily used in the production of downstream products such as AES, liquid detergents, cosmetics and ointments products.

AEO surfactants generally take the form of either colourless liquid or milky paste. Please refer to the sections headed “Business – Products and services – Our products – Surfactants” and “Business – Our production – Our production process – Surfactants” in this prospectus for further details on AEO surfactants and their manufacturing process.

The following table sets forth the material details of AEO surfactants:

#### AEO surfactants

Product series	:	fatty alcohol polyoxyethylene ether series
Raw materials	:	fatty alcohol and ethylene oxide
Formula	:	$C_{12-14}H_{25-29}O(CH_2CH_2O)_nH$
CAS number	:	9002-92-0

### CHINA'S ETHYLENE OXIDE MARKET

#### Overview

According to the SAI Report, China's ethylene oxide market consists of ethylene oxide that is (i) used internally to produce surfactants and other chemical products other than ethylene glycol; and (ii) sold in the market to companies that consume ethylene oxide for the production of surfactants and other chemical products. Alternatively, ethylene oxide that is used to produce ethylene glycol is not included as part of China's ethylene oxide market. According to the SAI Report, ethylene oxide/ethylene glycol production plants of ethylene glycol manufacturers are highly integrated units where ethylene oxide produced from the ethylene oxide reaction system is directly consumed to produce ethylene glycol. Therefore, ethylene oxide that is used to produce ethylene glycol, being an intermediate product, is not sold in open market and thus does not constitute part of the ethylene oxide market. It is also the industry practice for manufacturers to exclude ethylene oxide which is consumed in the production of ethylene glycol when reporting their aggregate production volume of ethylene oxide. For the purpose of this prospectus, the statistics in relation to demand and production of ethylene oxide shall exclude those of ethylene oxide which is consumed in the production of ethylene glycol.

## INDUSTRY OVERVIEW

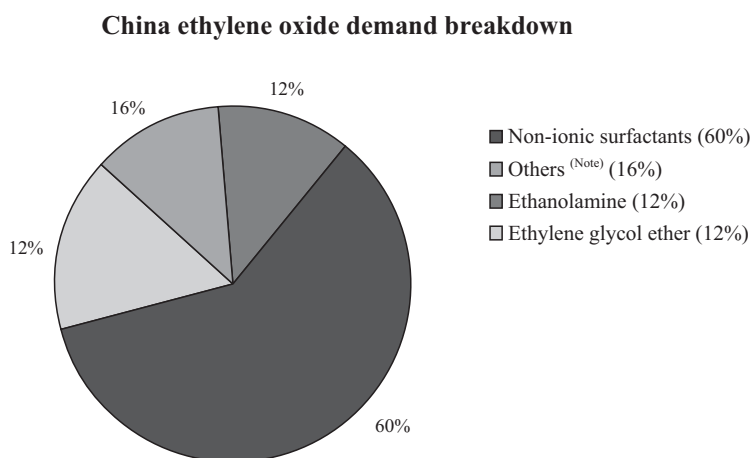
To date, China's ethylene oxide market remains relatively domestic, in that the supply and demand of ethylene oxide in China are currently and expected to be highly dominated and satisfied by domestic producers and users. Alternatively, the import and export level of ethylene oxide in China is currently and expected to remain at a minimal level. This is mainly due to the hazardous characteristics of ethylene oxide, the transportation of which is extremely difficult. In essence, the supply and demand of ethylene oxide in China are and will continue to be largely unaffected by that of the global ethylene oxide market, as illustrated in the following sections.

### Demand for ethylene oxide in China

According to the SAI Report, approximately 75% of the ethylene oxide produced in China is used for the production of ethylene glycol. However, as ethylene oxide that is used to produce ethylene glycol in China is entirely supplied through integrated production systems by the ethylene glycol manufacturers, ethylene oxide is generally not traded on the market for the purpose of ethylene glycol production. Therefore, the demand for ethylene oxide for the purpose of ethylene glycol production shall not be counted towards the demand for ethylene oxide in the market.

The demand for ethylene oxide in China is closely correlated with its downstream production activities. In particular, the consumption of ethylene oxide is highly driven by the production of non-ionic surfactants. In May 2010, the production of non-ionic surfactants accounted for 60% of the total consumption of ethylene oxide in China. The remaining 40% of the total consumption was occupied by the production of other minor downstream products, including ethanolamine, ethylene glycol ethers and other chemicals. Ethanolamine are generally used to produce desulfurisation chemical and chemical intermediates, while ethylene glycol ether are used in certain paint and coating applications.

The following chart sets forth a breakdown of the demand for ethylene oxide in China in May 2010:



Source: SAI Report.

Note: Others represent downstream products including detergents, pharmaceutical applications, dyes and rubber products etc.

## INDUSTRY OVERVIEW

According to the SAI Report, it is expected that the market for non-ionic surfactant will continue to dominate the demand for ethylene oxide in China. This is mainly due to the expected persistence in demand for non-ionic surfactants from detergent and cleaning product manufacturers and the textile industry.

According to the SAI Report, China's demand for ethylene oxide grew from 425,513 MT (in volume) or US\$556.4 million (in value) in 2005 to 725,531 MT (in volume) or US\$1,078.5 million (in value) in 2009. Due to increasing demand from the downstream industries, China's demand for ethylene oxide has continued to grow despite the financial crisis in 2008 and 2009. Further, such demand is expected to remain strong, with a projected growth at a CAGR of 17% from 2009 to 2014, reaching 1,564,017 MT in volume by the end of the five year period, or a total value of US\$2,813.6 million. This is primarily due to an expected growth in demand for ethylene oxide from the non-ionic surfactants downstream industries, and in particular, manufacturers of detergent and cleansing products.

### *Export of ethylene oxide*

Due to the limitations in the transportation of ethylene oxide, ethylene oxide produced in China is almost completely used for domestic applications, with exports from China standing at a low level of 3 MT in 2009 and even lower volumes in 2007 and 2008. According to the SAI Report, the price of exported ethylene oxide, not including transportation, is slightly higher than the domestic selling price. However, should transportation costs be taken into account, such selling price will no longer be competitive in global markets. According to the SAI Report, it is expected that this trend will continue up to 2014.

Further graphical illustrations of the demand for ethylene oxide are set out in the subsection headed "China's ethylene oxide market – Supply of ethylene oxide in China" in this section.

### **Supply of ethylene oxide in China**

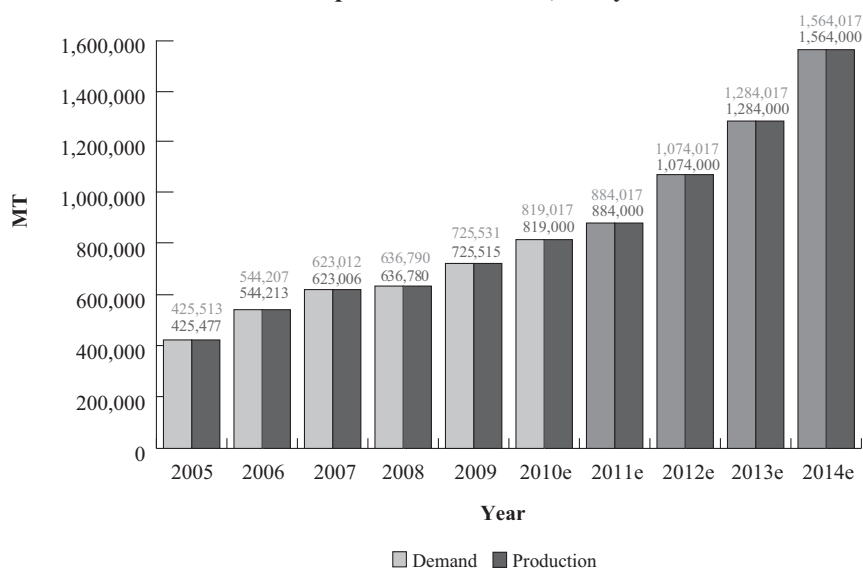
The supply of ethylene oxide in China is mainly satisfied by domestic production. According to the SAI Report, the total domestic production of ethylene oxide in China totalled at the volume of 725,515 MT, or value of US\$1,078.2 million in 2009, occupying approximately 99% of the total supply of ethylene oxide in China. In contrast, imports of ethylene oxide accounted for less than 1% of the total domestic consumption from 2005 to 2009.

Given the expected increase in demand for ethylene oxide and nationwide production capacity, it is projected that the domestic production of ethylene oxide in China will increase at a CAGR of 17% in volume or 21% in value to 1,564,000 MT or US\$2,813.4 million respectively in 2014. On the other hand, it is predicted that imports of ethylene oxide will only grow by less than 1% from 2009 to 2014.

## INDUSTRY OVERVIEW

The following charts set forth the historical and forecasted growth of demand and supply of ethylene oxide in terms of production volume and value for the periods from 2005 to 2009 and 2010 to 2014 respectively:

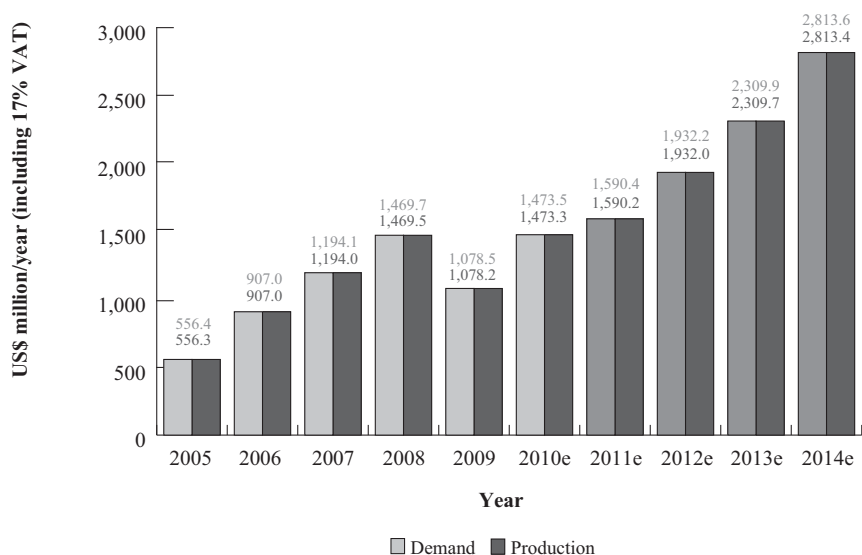
**China annual ethylene oxide demand and production volume, MT/year**



Source: SAI Report.

Note: The demand volume of ethylene oxide is equivalent to the domestic consumption, which is the sum of domestic production and imports less exports.

**China annual ethylene oxide demand and production value, US\$ million/year (including 17% VAT)**



Source: SAI Report.

## INDUSTRY OVERVIEW

### *Notes:*

- (1) The production value of ethylene oxide represents the production volume of ethylene oxide multiplied by its average price for each respective year. The production volume represents the ethylene oxide (i) used internally to produce surfactants and other chemical products other than ethylene glycol; and (ii) sold in the market to companies that consume ethylene oxide for the production of surfactants and other chemical products.
- (2) The demand value of ethylene oxide represents the demand volume of ethylene oxide multiplied by its average price for each respective year.

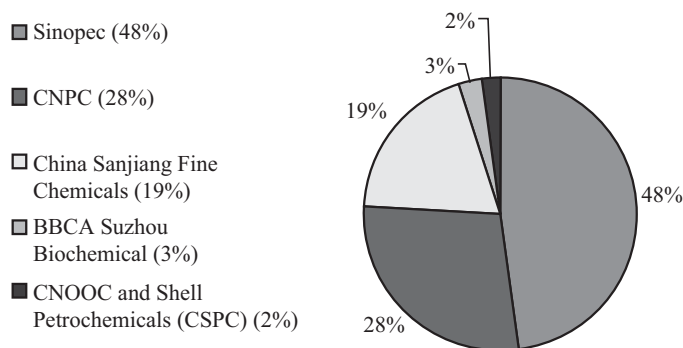
### **Competitive landscape of ethylene oxide supply in China**

#### *Domestic competition in supply of ethylene oxide*

According to SAI Report, the domestic ethylene oxide supply market in China currently consists of several state-owned and privately-owned corporations, including China Petroleum and Chemical Corporation (also known as Sinopec) and China National Petroleum Corporation (also known as CNPC). According to the SAI Report, as at 31 December 2009, the domestic ethylene oxide supply market has been largely dominated by the two aforementioned state-owned suppliers, with Sinopec leading the production capacity and actual production volume at 339,600 MT/year and 350,000 MT/year respectively in 2009. CNPC was the second largest domestic ethylene oxide supplier in 2009, with a production capacity and actual production volume of 185,000 MT/year and 203,000 MT/year respectively. Alternatively, Sinopec and CNPC occupied 48% and 28% of the domestic supply market in terms of production volume and value in 2009 respectively. With a production capacity and actual production volume of 120,000 MT/year and 140,515 MT/year respectively in 2009, China Sanjiang Fine Chemicals Company Limited was the third largest domestic ethylene oxide supplier and the largest privately-owned domestic ethylene oxide supplier in 2009. In light of the expected expansion in domestic production lines, it is projected that the domination by state owned suppliers may be reduced by a significant amount, with several other suppliers occupying more of the market supply of ethylene oxide in China.

The following chart sets forth the market share of ethylene oxide supply in terms of production volume for 2009 in China:

**2009 China ethylene oxide market  
share by production volume**



*Source:* SAI Report.

## INDUSTRY OVERVIEW

The following table sets forth the five largest producers of ethylene oxide (excluding ethylene oxide consumed in the production of ethylene glycol) in terms of designed production capacity, actual production volume and production value in 2009:

No.	Company	Designed Production Capacity (MT)	Actual Production Volume (MT)	Production value (US\$ million/year)
1	China Petroleum and Chemical Corporation (中國石油化工股份有限公司)	339,600	350,000	520.2
2	China National Petroleum Corporation (中國石油天然氣集團公司)	185,000	203,000	301.7
3	China Sanjiang Fine Chemicals Company Limited (中國三江精細化工有限公司)	120,000	140,515	208.8
4	BBCA Suzhou Biochemical Co., Ltd. (豐原宿州生物化工有限公司)	20,000	20,000	29.7
5	CNOOC and Shell Petrochemicals Co., Ltd (中海殼牌石油化工有限公司)	12,000	12,000	17.8

*Source:* SAI Report.

According to the SAI Report, even if ethylene oxide consumed in the production of ethylene glycol were considered as part of the ethylene oxide market, China Sanjiang Fine Chemicals Company Limited would still rank as the largest privately-owned manufacturer and the third largest manufacturer of ethylene oxide in China in terms of production volume and value.

According to the SAI Report, there are currently 12 ethylene oxide producers in China as at 31 December 2009 and it is expected that only three new commercial producers will enter into the market by 2014, namely Sanjiang Honam in 2011, Oxiran Chemical Co., Ltd. in 2013 and Sinopec-BASF joint venture in 2014. This is primarily due to the nation's burdensome entry barriers into the ethylene oxide market and the difficulty in securing ethylene supply in China. Please refer to the section headed "Business – Our competitive strengths – High entry barriers to the ethylene oxide manufacturing industry thereby limiting competition from new entrants" in this prospectus for further details on the entry barriers into the ethylene oxide market.

## INDUSTRY OVERVIEW

### *External competition in supply of ethylene oxide*

Supply of ethylene oxide from external competitors was and will continue to be extremely low as the supply of ethylene oxide in China was and will continue to be highly dominated by domestic production. As aforementioned, imported ethylene oxide accounted for a very minor proportion of domestic consumption in the past. This is mainly because ethylene oxide in both its gaseous and liquid forms are potential fire and explosion hazards, making transportation extremely difficult. As such, imported ethylene oxide has a much higher price in comparison to that of domestically produced ethylene oxide, according to the SAI Report. It is therefore expected that the amount of ethylene oxide imported into China will continue to occupy a minor proportion of the total supply of ethylene oxide in China. According to the SAI Report, imported ethylene oxide will continue to account for less than 1% of domestic consumption, with 20 MT imported annually.

### **Production technology**

As aforementioned, ethylene oxide is produced by direct oxidation of ethylene. According to SAI Report, in the current market, direct oxidation process technologies in China are dominated by technologies licensed by Dow, Shell, and Scientific Design Company, Inc. There are slight differences among these technologies. The production technology of Scientific Design Company, Inc. involves a direct oxidation catalyst that has a higher ethylene oxide selectivity range, or ethylene to ethylene oxide conversion rate, of 81.9% to 91.0%, under the reaction temperature between 232°C to 255°C. In comparison, other production technologies may only yield an ethylene oxide selectivity range of 81% to 83% under the same reaction temperature.

### **Pricing of ethylene oxide and raw materials sourcing in China**

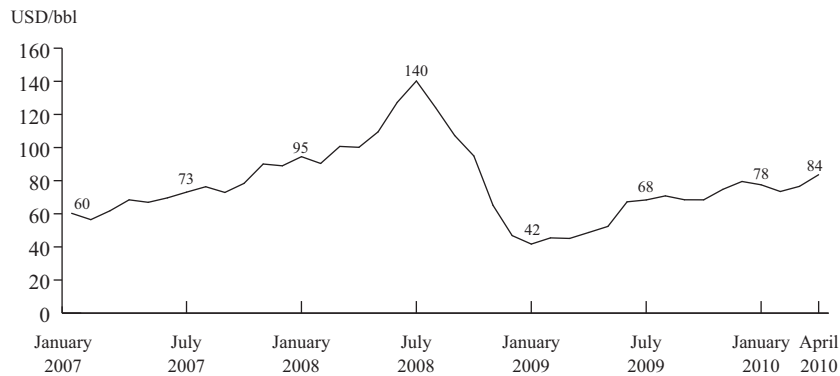
In general, the price of ethylene oxide is influenced by the costs of its raw material inputs, namely ethylene, and the supply-demand balance within the market. As a petrochemical product, the price of ethylene corresponds closely with the price of crude oil, which is highly responsive to the economic and political developments in crude oil producing regions and the global economic conditions. The average prices of ethylene oxide per MT in the PRC from 2007 to 2009 were approximately RMB14,565, RMB15,761 and RMB10,151 respectively, and the average price of the same from January to April 2010 was RMB12,286.

According to the SAI Report, as at 31 December 2009, domestic ethylene supply in China was dominated by Sinopec and CNPC. The rest of such domestic supply was produced by several smaller joint venture ethylene producers established by state-owned enterprises and foreign entities. However, approximately 98% of such domestically produced ethylene is for internal use by the respective producers to produce various downstream ethylene products, according to the SAI Report. Alternatively, only 2% of the domestically produced ethylene is traded in the open market.

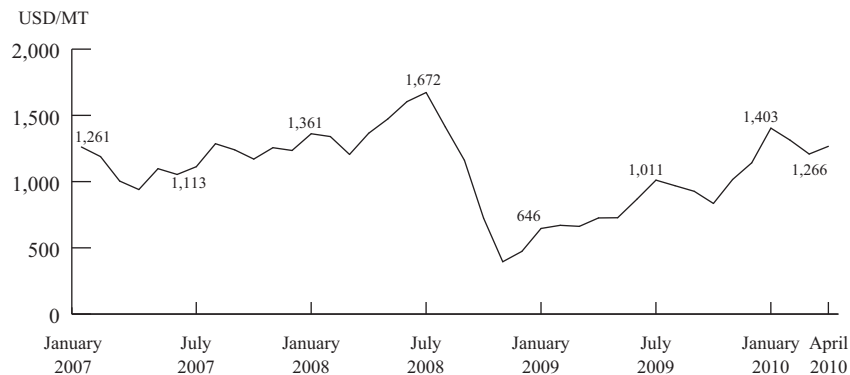
## INDUSTRY OVERVIEW

The following charts set forth the historical prices of crude oil, ethylene and ethylene oxide:

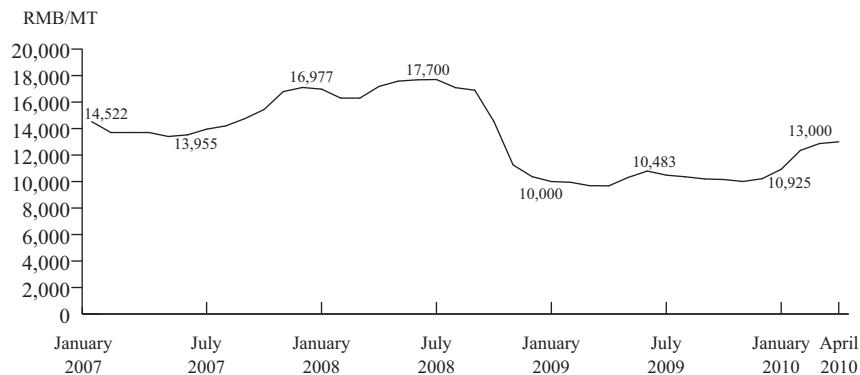
**European Brent Blend Crude Oil Spot Price**



**Ethylene Asia Pacific Spot CFR N. E. Asia**



**China Ethylene Oxide Price**



Source: SAI Report.

Please refer to the section headed “Risk factors – Risks relating to the industry in which we operate – Fluctuations in the prices of crude oil and refined products may adversely impact our profit margins and results of operations” in this prospectus for further details on crude oil and its effect on ethylene pricing.

## INDUSTRY OVERVIEW

### CHINA'S NON-IONIC SURFACTANTS MARKET

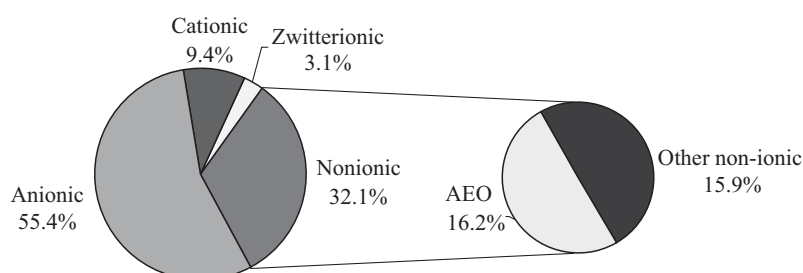
For the purpose of this prospectus, the following subsections will focus primarily on non-ionic surfactants, in particular, the AEO surfactants.

#### Overview of the surfactants market in China

According to the SAI Report, in 2009, the total production of surfactants in China stood at a level of 1,760,000 MT, amongst which the non-ionic surfactants accounted for 565,000 MT, or 32.1%. Of all non-ionic surfactants produced, AEO surfactants accounted for 50%. Alternatively, AEO surfactants accounted for 16.2% of all surfactants produced in China respectively. Other non-ionic surfactant types made up the remaining 50% of non-ionic surfactants, or 15.9% of all surfactants produced. Anionic surfactants accounted for the largest share of surfactants produced in China, at 55.4% of the total surfactant production market.

The following chart and table set forth the breakdown of China's surfactant production volume in 2009:

**2009 China surfactant production breakdown by volume**



Surfactant type	Production, MT	Percentage
Anionic	975,000.00	55.4%
Cationic	165,000.00	9.4%
Zwitterionic	55,000.00	3.1%
Non-ionic		
AEO	285,000.00	16.2%
Other non-ionic	280,000.00	15.9%
Total	<u>1,760,000.00</u>	<u>100.0%</u>

Source: SAI Report.

### **The AEO surfactants market in China**

#### *Demand for AEO surfactants in China*

The main customers of AEO surfactants in the China market are primarily downstream manufacturers of household and industrial detergent, industrial surfactants, and sodium fatty alcohol ether sulphate (AES). Industrial surfactants can be used in a variety of downstream industries, including textiles, paper, metal, agriculture, construction materials, petrochemicals, and leather processing. AES is generally used to produce household and industrial cleaning products, such as soaps.

According to the SAI Report, the downstream application in industrial and household detergents accounted for 46% of the total demand for AEO surfactants in China, rendering them the largest nation wide demand for AEO surfactants in 2009. In addition, AES producers accounted for 36%, with various other downstream industries accounting for 18% of the total demand for AEO surfactants in China.

According to the SAI Report, the total demand for AEO surfactants in China reached a volume of 419,500 MT, or value of US\$835.3 million in 2009. Due to a forecasted increase in demand for downstream products of AEO surfactants, it is projected that the AEO surfactants demand in China will experience growth at a CAGR of 5%, reaching 529,500 MT or US\$1,077.6 million by 2014.

#### *Export of AEO surfactants*

China's domestically produced AEO surfactants are mainly sold or consumed in the domestic market. According to the SAI Report, domestic producers export approximately 500 MT of AEO surfactants per year. Such volume represents less than 1% of the total AEO surfactants produced in China per year from 2007 to 2009.

Further graphical illustrations of the demand for AEO surfactants in China are set out in the subsection headed "China's non-ionic surfactants market – The AEO surfactants market in China – Supply of AEO surfactants in China" in this section.

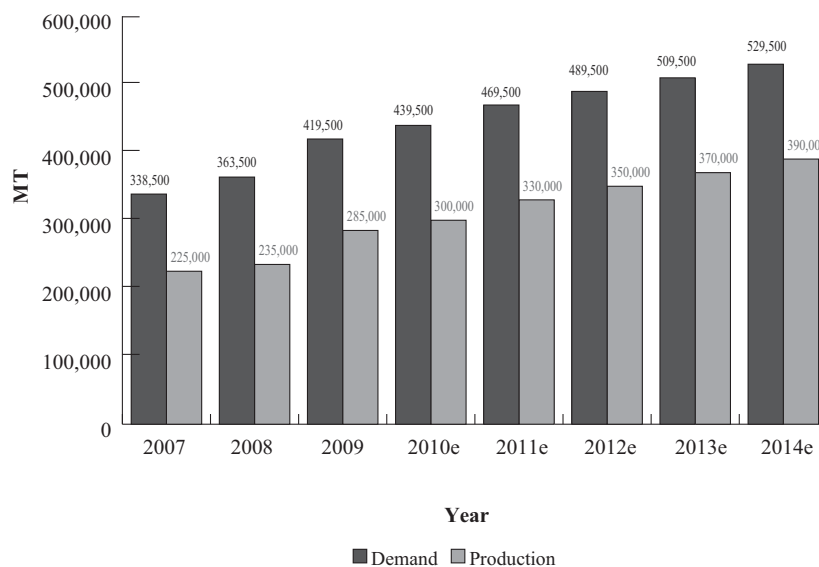
#### *Supply of AEO surfactants in China*

The supply of AEO surfactants in China is mainly made up of domestic production, while any shortfall is imported from overseas. In 2009, domestically produced AEO surfactants accounted for approximately 68% of the total demand in China, while imports represented the remaining 32%. According to the SAI Report, the production of AEO surfactants in China totalled at the volume of 285,000 MT, or value of US\$567.5 million in 2009. Given the constant expansion in surfactant production capacity in the domestic market, it is projected that the domestic production will grow at a CAGR of 6% reaching a supply level of 390,000 MT, or US\$793.7 million by 2014. In contrast, it is predicted that the import level will experience little growth in the five year period.

## INDUSTRY OVERVIEW

The following charts set forth the historical and forecasted demand and production growth for AEO surfactants in terms of production volume and value for the periods 2007 to 2009 and 2010 to 2014 respectively:

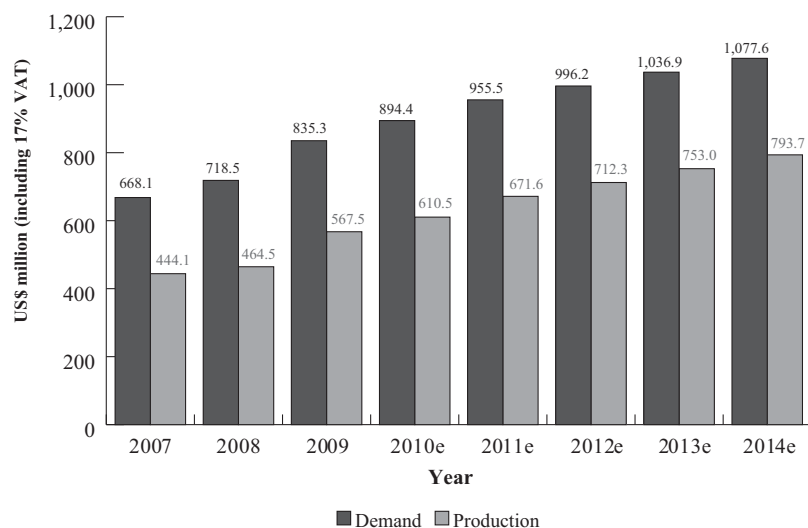
**China annual AEO demand and production volume, MT/year**



*Source:* SAI Report.

*Note:* AEO surfactant demand volume is equivalent to the demand consumption, which is the sum of the domestic production volume and imports less exports.

**China annual AEO demand and production value, US\$ million  
(including 17% VAT)**



*Source:* SAI Report.

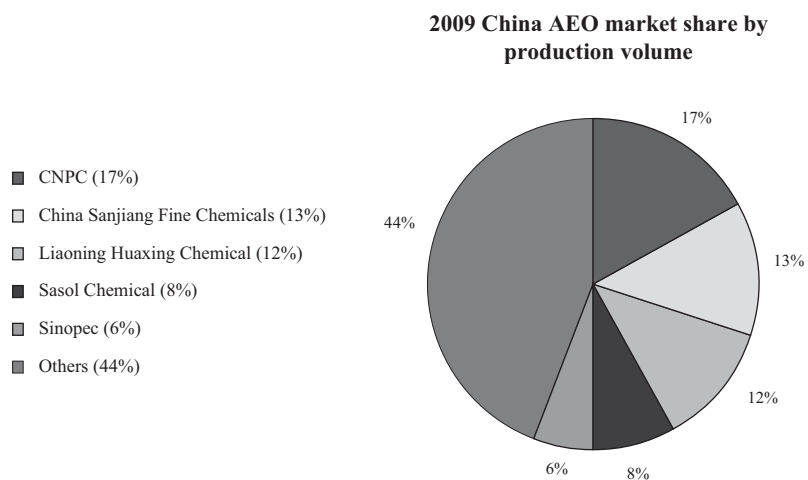
*Note:* The demand and production value represents the demand and production volume of AEO surfactants multiplied by its average price for each respective year.

## INDUSTRY OVERVIEW

### *Competitive landscape of AEO surfactants supply in China*

According to the SAI Report, in 2009, the domestic AEO surfactants market in China is dominated by 20 domestic suppliers, with their products accounting for 78% of the total domestic supply. The remaining 22% is mainly supplied by small surfactants producers that manufacture AEO surfactants in very low quantities. By 2014, with an expected growth in domestic surfactant production capacity, it is predicted that the top 20 AEO surfactants suppliers will account for 85% of all AEO surfactants supplied by domestic producers to the market.

The following chart sets forth the market share of AEO surfactants supply in terms of production volume for 2009 in China:



Source: SAI Report.

## INDUSTRY OVERVIEW

The following table sets forth the five largest producers of AEO surfactants in terms of actual production volume and production value in 2009:

No.	Company	Production Volume (MT)	Production value (US\$ million/year)
1	China National Petroleum Corporation (中國石油天然氣集團公司)	48,000	95.5
2	China Sanjiang Fine Chemicals Company Limited (中國三江精細化工有限公司)	36,678	73.0
3	Liaoning Huaxing Chemical Co., Ltd. (遼寧華興化學品有限公司)	35,000	69.7
4	Sasol (China) Chemical Co., Ltd. (沙索(中國)化學有限公司)	22,000	43.8
5	China Petroleum and Chemical Corporation (中國石油化工股份有限公司)	17,000	33.9

*Source:* SAI Report

As aforementioned, given an expected growth in domestic supply for AEO surfactants in China in contrast to that of exports and imports, it is projected that the market share will be further dominated by domestic suppliers. According to the SAI Report, it is predicted that the market share for domestically produced AEO surfactants will increase from 68% in 2009 to 74% in 2014, whilst the same for imports will be reduced from 32% to 26% over the same period in light of its slow CAGR of 1%.

### *Pricing of AEO surfactants in China*

The price of AEO surfactants is primarily determined by the cost of raw materials, namely ethylene oxide and fatty alcohol. In general, fatty alcohol is supplied to the China market almost entirely through imports, the price of which is highly dependant on the availability of such imported supply, any changes in the import taxation policies regarding this product and the transportation cost from supplier countries.

## RELEVANT PRC LAWS AND REGULATIONS ON THE ETHYLENE OXIDE/SURFACTANTS MARKETS

There are various laws and regulations that govern the production and sale of chemical products in China, including ethylene oxide and surfactants. Please refer to the sections headed “Business – Licences and permits” and “Summary of principal PRC Laws and regulations relating to our business” as set out in Appendix V to this prospectus for further details.

## HISTORY AND REORGANISATION

### Our Group

Our Company was incorporated in the Cayman Islands on 30 January 2009 and is the holding company of our subsidiaries. As a result of our Reorganisation, our Company, through Capitol International, indirectly holds the shareholding interest in five operating subsidiaries in the PRC, namely Sanjiang Chemical, Yongming Petrochemical, Sanjiang Trading, Guanlang and Hangzhou Sanjiang, which are principally engaged in the petrochemical manufacturing and related businesses in Zhejiang Province of the PRC. Our Company also indirectly held the shareholding interest in Jianghao Property until December 2009.

Prior to the establishment of our Group, Mr. Guan established Hangzhou Haoming, with Ms. Han and Mr. Han Jianping, in March 1998. Hangzhou Haoming commenced its surfactant manufacturing in May 1998. In order to concentrate resources and efforts on our core business, as part of our Reorganisation, Hangzhou Sanjiang was set up to acquire from Hangzhou Haoming its ethylene oxide trading and surfactant manufacture and sale businesses in April 2010. As Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han, the results of the business acquired from Hangzhou Haoming have been reflected in our Group's results prior to 31 March 2010 by using merger accounting.

The following describes the key milestones of our corporate and production history:

<b>May 1998</b>	Production of surfactants at the Xiaoshan Production Plant of Hangzhou Haoming commenced after the first phase construction of the production facilities of surfactants with a designed annual production capacity of 8,000 MT at the Xiaoshan Site was completed
<b>March 2001</b>	Second phase construction of the production facilities of surfactants with a designed annual production capacity of 10,000 MT at the Xiaoshan Site of Hangzhou Haoming was completed, thereby our designed annual production capacity of surfactants increased to 18,000 MT in aggregate
<b>July 2003</b>	Capitol International was incorporated in Hong Kong as an investment holding company for the purpose of holding our petrochemical manufacturing businesses in the PRC
<b>December 2003</b>	Sanjiang Chemical and Yongming Petrochemical were established in the PRC to commence petrochemical manufacturing business
<b>October 2004</b>	Sanjiang Trading was established in the PRC to engage in the trading business of ethylene oxide, ethylene and other petrochemical products

## HISTORY AND REORGANISATION

<b>September 2005</b>	Guanlang was established in the PRC to manage and operate the pipeline transport of ethylene. Guanlang is also engaged in the business of rental of pipeline structural steel truss
<b>September 2005</b>	Ethylene storage tank with an aggregate storage capacity of 22,000 cubic metres was installed in Jiaxing
<b>December 2005</b>	First phase construction of the production facilities of ethylene oxide with a designed annual production capacity of 60,000 MT at our Jiaxing Site was completed
<b>January 2006</b>	Production of ethylene oxide at our Jiaxing Production Plant commenced
<b>January 2008</b>	First phase construction of the production facilities of surfactants with a designed annual production capacity of 100,000 MT at our Jiaxing Site was completed, thereby our designed annual production capacity of surfactants increased to 118,000 MT in aggregate
<b>February 2008</b>	Production of surfactants at our Jiaxing Production Plant commenced
<b>December 2008</b>	Second phase construction of the production facilities of ethylene oxide with a designed annual production capacity of 60,000 MT at our Jiaxing Site was completed, thereby our designed annual production capacity of ethylene oxide increased to 120,000 MT in aggregate
<b>January 2009</b>	Our Company was incorporated in the Cayman Islands as our holding company in anticipation of the Global Offering
<b>April 2009</b>	Second phase construction of the production facilities of surfactants with a designed annual production capacity of 100,000 MT commenced at our Jiaxing Site
<b>September 2009</b>	Our Company acquired the entire shareholding interest in Capitol International which became a wholly-owned subsidiary of our Company
<b>December 2009</b>	Third phase construction of the production facilities of ethylene oxide with a designed annual production capacity of 60,000 MT commenced at our Jiaxing Site. The third phase construction is expected to be completed by early 2011, thereby increasing our designed annual production capacity of ethylene oxide to 180,000 MT in aggregate upon completion

## HISTORY AND REORGANISATION

### **April 2010**

Hangzhou Sanjiang was established to acquire the ethylene oxide trading and surfactant manufacture and sale businesses from Hangzhou Haoming. As Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han, the results of the business acquired from Hangzhou Haoming have already been reflected in our Group's results prior to 31 March 2010 by using merger accounting

### **May 2010**

Sanjiang Honam was established in the PRC to principally engage in the manufacture of ethylene oxide

### **August 2010**

Second phase construction of the production facilities of surfactants with a designed annual production capacity of 100,000 MT was completed, thereby our designed annual production capacity of surfactants increased to 218,000 MT in aggregate

The following describes the corporate history of our Company, Hangzhou Haoming, our subsidiaries, Jianghao Property and Sanjiang Honam.

### **Our Company**

Our Company was incorporated in the Cayman Islands on 30 January 2009 and is the holding company of our subsidiaries. As of the Latest Practicable Date, our Company was held as to approximately 69.49% by Sure Capital, all the issued ordinary shares of which were held by Mr. Guan and Ms. Han as to approximately 84.71% and 15.29% respectively and all the issued preference shares of which were held by the Preference Shares Investors. The remaining approximately 30.51% shareholding interest in our Company was, as of the Latest Practicable Date, held by the Ordinary Shares Investors, the New Investors and Pasicue as to 5.8%, 21.86% and 2.85% respectively.

As a result of our Reorganisation, our Company, through Capitol International, indirectly holds the shareholding interest in five operating subsidiaries in the PRC, namely Sanjiang Chemical, Yongming Petrochemical, Sanjiang Trading, Guanlang and Hangzhou Sanjiang, which are principally engaged in the petrochemical manufacturing and related businesses in Zhejiang Province of the PRC. Our Company also indirectly held the shareholding interest in Jianghao Property until December 2009. Please refer to the paragraph headed "Reorganisation" below in this section and the section headed "Further information about our Company – Group reorganisation" as set out in Appendix VII to this prospectus for further details on our Reorganisation.

### **Hangzhou Haoming**

Prior to the establishment of our Group, Mr. Guan established Hangzhou Haoming, with Ms. Han and Mr. Han Jianping, in March 1998 and Hangzhou Haoming was held as to 60% by Mr. Guan and 20% by each of Ms. Han and Mr. Han Jianping respectively. Ms. Han is the spouse of Mr. Guan and Mr. Han Jianping is the brother of Ms. Han. At the time of the establishment of Hangzhou Haoming in 1998, its registered capital of RMB500,000 was paid up by Mr. Guan from his income made from his prior business engagement. Hangzhou Haoming commenced its surfactant manufacturing in May 1998. Besides, Hangzhou Haoming is the investment holding company of its subsidiaries which are principally engaged in the businesses of supply of desalinated water and steam, manufacture of chlorine gas, sulphuric acid, magnesium sulphate and synthetic materials, as well as trading business.

## HISTORY AND REORGANISATION

In order to concentrate resources and efforts on our core business, as part of our Reorganisation, Hangzhou Sanjiang was set up to acquire from Hangzhou Haoming its ethylene oxide trading and surfactant manufacture and sale businesses in April 2010. As Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han, the results of the business acquired from Hangzhou Haoming have been reflected in our Group's results prior to 31 March 2010 by using merger accounting. After such acquisition, Hangzhou Haoming ceased the businesses of ethylene oxide trading and manufacture and sale of surfactants or any products in direct competition with us. Its subsidiaries however continue to engage in the business of supply of desalinated water and steam, manufacture of chlorine gas sulfuric acid, magnesium and its trading business. As of the Latest Practicable Date, Hangzhou Haoming remained held as to 60% by Mr. Guan and 20% by each of Ms. Han and Mr. Han Jianping respectively and was engaged in business not in direct competition with us. Please refer to the paragraph headed "Reorganisation" below in this section and the section headed "Further information about our Company – Group reorganisation" in Appendix VII to this prospectus for further details on the acquisition.

### **Sanjiang Chemical**

In December 2003, we commenced our petrochemical manufacturing business with the establishment of Sanjiang Chemical in Jiaxing of the Zhejiang Province. Sanjiang Chemical was established as a sino-foreign joint venture company with a registered capital of US\$10,800,000 and was held by Capitol International and Hangzhou Haoming as to 92.59% and 7.41% respectively on the date of establishment. The registered capital of US\$10,800,000 was paid up as to 92.59% (i.e. US\$10,000,000) by Capitol International which was advanced by Ms. Han as shareholder's loan which was in turn obtained by Ms. Han from an Independent Third Party lender. The remaining 7.41% was paid up by Hangzhou Haoming from its internally generated funds from its operating activities.

In May 2005, the registered capital of Sanjiang Chemical was increased to US\$18,000,000 through an additional capital contribution of US\$1,200,000 by Hangzhou Haoming and an initial capital contribution of US\$6,000,000 by Tengfei Gongmao which is an Independent Third Party. As a result, Capitol International's shareholding interest in Sanjiang Chemical was diluted from 92.59% to 55.56%, whilst Hangzhou Haoming's shareholding interest in Sanjiang Chemical increased from 7.41% to 11.11% and Tengfei Gongmao became a shareholder of Sanjiang Chemical holding 33.33% of the shareholding interest in Sanjiang Chemical.

Sanjiang Chemical commenced its production in January 2006 and is principally engaged in the manufacture of ethylene oxide and surfactants.

In March 2007, Tengfei Gongmao sold and transferred its 28.89% shareholding interest in Sanjiang Chemical to Hangzhou Haoming for a consideration of RMB61,680,000. Following the transfer, Sanjiang Chemical was held by Capitol International, Hangzhou Haoming and Tengfei Gongmao as to 55.56%, 40% and 4.44% respectively.

The registered capital of Sanjiang Chemical was increased to US\$21,500,000 in May 2007, and to US\$22,225,000 in November 2007 through additional capital contributions of US\$1,944,600 by Capitol International, US\$2,092,810 by Hangzhou Haoming and US\$187,590 by Tengfei Gongmao. As a result, Sanjiang Chemical was held by Capitol International, Hangzhou Haoming and Tengfei Gongmao as to 53.75%, 41.81% and 4.44% respectively.

## HISTORY AND REORGANISATION

As part of our Reorganisation, Capitol International acquired 41.81% and 4.44% shareholding interest in Sanjiang Chemical for a consideration of RMB94,120,258.39 and RMB9,995,071.69 from Hangzhou Haoming and Tengfei Gongmao respectively in November 2009. Such consideration was determined by reference to the amount of Hangzhou Haoming's total investment in Sanjiang Chemical in the sum of RMB94,120,258.39 (which is for 41.81% shareholding interest in Sanjiang Chemical). The consideration paid by Capitol International to Tengfei Gongmao was determined by reference to the pro rata amount of the consideration paid by Capitol International to Hangzhou Haoming (which is for 41.81% shareholding interests in Sanjiang Chemical) as proportionate to Tengfei Gongmao's 4.44% shareholding interest in Sanjiang Chemical. As a result, Sanjiang Chemical became a wholly-foreign owned enterprise and a wholly-owned subsidiary of Capitol International. Please refer to the paragraph headed "Reorganisation" below in this section and in the section headed "Further information about our Company – Group reorganisation" as set out in Appendix VII to this prospectus for further details on the acquisitions.

### **Yongming Petrochemical**

Yongming Petrochemical was established as a sino-foreign joint venture company in Jiaxing of the Zhejiang Province in December 2003 with a registered capital of US\$10,800,000. On the date of establishment, Yongming Petrochemical was held by Capitol International and 杭州永明塑料包装有限公司 (Hangzhou Yongming Plastic Packaging Co., Ltd.\*) ("**Hangzhou Yongming**"), an Independent Third Party, as to 92.59% and 7.41% respectively.

In August 2006, Hangzhou Yongming sold and transferred its entire 7.41% shareholding interest in Yongming Petrochemical to Hangzhou Haoming for a consideration of RMB2,500,000. Following the transfer, Yongming Petrochemical was held by Capitol International and Hangzhou Haoming as to 92.59% and 7.41% respectively.

Yongming Petrochemical commenced its production in December 2008, and is principally engaged in the manufacture of ethylene oxide and surfactants.

The registered capital of Yongming Petrochemical was increased to US\$22,800,000 in July 2009 through an initial capital contribution of US\$12,000,000 by Sanjiang Chemical. As a result, Capitol International's shareholding interest in Yongming Petrochemical was diluted from 92.59% to 43.86%, whilst Hangzhou Haoming's shareholding interest in Yongming Petrochemical was diluted from 7.41% to 3.51% and Sanjiang Chemical became a shareholder of Yongming Petrochemical holding 52.63% of the shareholding interest in Yongming Petrochemical.

As part of our Reorganisation, Sanjiang Chemical acquired 3.51% shareholding interest in Yongming Petrochemical for a consideration of RMB11,518,262 from Hangzhou Haoming in January 2010. Such consideration was determined with reference to the net asset value of Yongming Petrochemical as at 30 November 2009. As a result, Sanjiang Chemical's shareholding in Yongming Petrochemical increased to 56.14% and Yongming Petrochemical became our wholly-owned subsidiary. Please refer to the paragraph headed "Reorganisation" below in this section and the section headed "Further information about our Company – Group reorganisation" as set out in Appendix VII to this prospectus for further details on the acquisition.

## HISTORY AND REORGANISATION

### Sanjiang Trading

Sanjiang Trading was established as a domestic enterprise in Jiaying of the Zhejiang Province in October 2004 with a registered capital of RMB500,000 to engage in the trading business of ethylene. On the date of establishment, Sanjiang Trading was held by Mr. Guan and Mr. Shi Mingfa (“**Mr. Shi**”) as to 60% and 40% respectively. Mr. Shi is a friend of Mr. Guan. He is a former director of each of Guanlang and Yongming Petrochemical, and a former shareholder of each of Hangzhou Yongming, Sanjiang Trading and Capitol International. In May 2006, the Company granted a loan of approximately RMB24,400,000 to Hangzhou Yongming, which was repaid in full in August 2008. Save as disclosed, Mr. Shi has no other past or present relationship with the Group, its directors, senior management, shareholders and their respective associates.

The registered capital of Sanjiang Trading was increased to RMB5,000,000 in November 2004. The additional capital of RMB4,500,000 was contributed by Mr. Guan as to RMB2,700,000 and Mr. Shi as to RMB1,800,000.

In June 2006, Mr. Shi sold and transferred his 40% shareholding interest in Sanjiang Trading to Ms. Han for a consideration of RMB2,000,000. At the relevant time Sanjiang Trading was loss-making and equity attributable to equity holders of the company was only about RMB1.97 million. Therefore, the parties used the registered capital amount of Sanjiang Trading (i.e. RMB5 million) as the basis for determining the consideration for the transfer. Following the transfer, Sanjiang Trading was held by Mr. Guan and Ms. Han as to 60% and 40% respectively.

In February 2008, Mr. Guan and Ms. Han transferred their respective entire shareholding interest in Sanjiang Trading to Hangzhou Haoming for a consideration of RMB3,000,000 and RMB2,000,000 respectively. As a result, Sanjiang Trading became a wholly-owned subsidiary of Hangzhou Haoming.

As part of our Reorganisation, Yongming Petrochemical acquired the entire shareholding interest in Sanjiang Trading for a consideration of RMB5,000,000 from Hangzhou Haoming in January 2010. Such consideration was determined with reference to the registered capital of Sanjiang Trading. As a result, Sanjiang Trading became a wholly-owned subsidiary of Yongming Petrochemical. Please refer to the paragraph headed “Reorganisation” below in this section and the section headed “Further information about our Company – Group reorganisation” as set out in Appendix VII to this prospectus for further details on the acquisition.

### Guanlang

Guanlang was established in Jiaying of the Zhejiang Province in September 2005 with a registered capital of RMB6,000,000 to manage and operate the pipeline transport of ethylene, the principal raw material for our manufacture of ethylene oxide. Guanlang is also engaged in the business of leasing of pipeline structural steel truss. On the date of establishment, Guanlang was held by Sanjiang Chemical and Zhapu Construction, as to 65% and 35% respectively. Zhapu Construction is a wholly state-owned company funded by 嘉興港區國有資產管理辦公室 (Jiaying Port Economic Development Zone State-owned Asset Management Office). Zhapu Construction is principally engaged in infrastructure investments, developments and constructions, as well as land resumption, reservation and development in Zhapu, Jiaying, the Zhejiang Province.

## HISTORY AND REORGANISATION

The registered capital of Guanlang was increased to RMB13,000,000 in September 2006 through an additional capital contribution of RMB7,000,000 by Sanjiang Chemical. As a result, Sanjiang Chemical's shareholding interest in Guanlang increased from 65% to 83.85%, whilst Zhapu Construction's shareholding interest in Guanlang was diluted from 35% to 16.15%.

### Hangzhou Sanjiang

We established Hangzhou Sanjiang in April 2010 in Xiaoshan of the Zhejiang Province as a wholly-owned subsidiary of Sanjiang Chemical with a registered capital of RMB5,000,000 for the purpose of operating the ethylene oxide trading and surfactant manufacture and sale businesses acquired from Hangzhou Haoming. The registered capital of Hangzhou Sanjiang has been fully paid. As Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han, the results of the business acquired from Hangzhou Haoming have been reflected in our Group's results prior to 31 March 2010 by using merger accounting. Please refer to the paragraph headed "Reorganisation" below in this section and the section headed "Further information about our Company – Group Reorganisation" as set out in Appendix VII to this prospectus for further details on the acquisition.

### Capitol International

In July 2003, Capitol International was incorporated in Hong Kong as a company with limited liability with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each of which two shares were allotted and issued to two initial subscribers at par. In October 2003, each of the two subscriber shares was sold and transferred to each of Ms. Han and Ms. Chen Xinghua, an Independent Third Party, at par. On the same day, an aggregate of 9,998 shares in Capitol International were allotted and issued to Ms. Han and four shareholders who are Independent Third Parties at par. The following summarises the shareholding structure of Capitol International immediately following the above share transfers and allotments:

Shareholders	Number of shares
Ms. Han	2,777
Ms. Chen Xinghua ("Ms. Chen")	2,750
Mr. Shi	2,250
Mr. Wang Jinchang ("Mr. Wang")	1,355
Mr. Yin Zhangwei ("Mr. Yin")	868
	<hr/>
	10,000

## HISTORY AND REORGANISATION

The spouse of Ms. Chen is one of the shareholders whereas Mr. Shi is a former shareholder of Hangzhou Yongming, the 7.41% shareholder of Yongming Petrochemical at the time of its establishment. Mr. Shi is also a former shareholder of Sanjiang Trading. Mr. Wang is one of the shareholders of a company established in the PRC principally engaged in the production of textile auxiliaries. Mr. Yin is one of the shareholders of a company established in the PRC principally engaged in the production of chemical auxiliaries. During the Track Record Period, the Group had supplied surfactants to such company owned by Mr. Yin.

As all of these shareholders had known Mr. Guan and Ms. Han for over ten years and Mr. Wang and Mr. Yin were also engaged in the fine chemicals business, therefore, they were interested in investing with Ms. Han in Capitol International.

In July 2005, the following share transfers took place:

- (A) an aggregate of 900 shares in Capitol International were sold and transferred to Mr. Guo Mingliang, an Independent Third Party, from the shareholders at par as follows:

Shareholders	Number of shares
Ms. Han	552
Mr. Shi	348
	900

- (B) an aggregate of 900 shares in Capitol International were sold and transferred to Mr. Guo Mingdong, an Independent Third Party, from the shareholders at par as follows:

Shareholders	Number of shares
Ms. Han	697
Ms. Chen	203
	900

- (C) Ms. Chen sold and transferred her 138 shares and 86 shares in Capitol International to Mr. Wang and Mr. Yin at par respectively.

## HISTORY AND REORGANISATION

The following summarises the shareholding structure of Capitol International immediately following the above share transfers:

Shareholders	Number of shares	Percentage of shareholding (%)
Ms. Han	1,528	15.28
Ms. Chen	2,323	23.23
Mr. Shi	1,902	19.02
Mr. Wang	1,493	14.93
Mr. Yin	954	9.54
Mr. Guo Mingliang	900	9.00
Mr. Guo Mingdong	900	9.00
	10,000	100.00

Mr. Guo Mingliang and Mr. Guo Mingdong are brothers and they are cousins of Mr. Yin. They are the shareholders of a company established in the PRC principally engaged in the production and sale of dyeing chemical products. They are friends of Mr. Guan and his family through the introduction of Mr. Yin. As they were also engaged in the fine chemicals business, they were interested in investing in Capitol International.

In June 2006, an aggregate of 8,472 shares in Capitol International were sold and transferred to Mr. Guan from the shareholders at par as follows:

Shareholders	Number of shares
Ms. Chen	2,323
Mr. Shi	1,902
Mr. Wang	1,493
Mr. Yin	954
Mr. Guo Mingliang	900
Mr. Guo Mingdong	900
	8,472

Each of Ms. Chen, Mr. Shi, Mr. Wang and Mr. Yin, is a friend of Mr. Guan for over ten years and a former shareholder of Capitol International, whereas Mr. Guo Mingliang and Mr. Guo Mingdong, former shareholders of Capitol International, are brothers and are cousins of Mr. Yin. Ms. Chen is a former director of Yongming Petrochemical and the spouse of Ms. Chen is one of the shareholders of Hangzhou Yongming.

Save as disclosed, each of Ms. Chen, Mr. Shi, Mr. Wang, Mr. Yin, Mr. Guo Mingliang and Mr. Guo Mingdong has no other past or present relationship with the Group, the Directors, the senior management of the Company, the Shareholders and their respective associates.

## HISTORY AND REORGANISATION

Each of Ms. Chen, Mr. Shi, Mr. Wang, Mr. Yin, Mr. Guo Mingliang and Mr. Guo Mingdong was the beneficial owner of the respective interests held by them in Capitol International. However, as all the funds invested in Sanjiang Chemical by Capitol International were contributed solely by Ms. Han in the form of shareholder's loan, whereas the other shareholders had not made any capital or funding contribution to Capitol International other than the amount at par value paid on the number of shares held by them, they agreed to transfer their interests in Capitol International at par.

The following summarises the shareholding structure of Capitol International immediately following the above share transfers:

Shareholders	Number of shares	Percentage of shareholding (%)
Mr. Guan	8,472	84.72
Ms. Han	1,528	15.28
	10,000	100.00

As part of our Reorganisation, the authorised share capital of Capitol International was increased to HK\$1,000,000 divided into 1,000,000 shares of HK\$1.00 each and 990,000 shares in Capitol International were allotted and issued at par to our Company in September 2009. As a result, Capitol International was held by our Company, Mr. Guan and Ms. Han as to approximately 99%, 0.85% and 0.15% respectively.

In September 2009, Mr. Guan and Ms. Han sold and transferred their entire shareholding in Capitol International to our Company in consideration of and in exchange for which our Company allotted and issued 114,080 Old Shares to Sure Capital at the direction of Mr. Guan and Ms. Han. As a result, Capitol International became a wholly-owned subsidiary of our Company.

### **Jianghao Property**

We established Jianghao Property in June 2009 in Pinghu, Jiaxing of the Zhejiang Province with a registered capital of RMB10,000,000 to engage in the business of property development. Jianghao Property was a wholly-owned subsidiary of Sanjiang Chemical. The registered capital of Jianghao Property was increased to RMB50,000,000 in July 2009 through an additional capital contribution of RMB40,000,000 by Sanjiang Chemical.

In order to concentrate resources and efforts on our core business, as part of our Reorganisation, we disposed of Jianghao Property in December 2009 to Jianghao Investment, a company entirely owned by Mr. Guan and Ms. Han at a consideration of RMB50,000,000. Such consideration was determined by reference to the registered capital of Jianghao Property. Please refer to the paragraph headed "Reorganisation" below in this section and the section headed "Further information about our Company – Group reorganisation" as set out in Appendix VII to this prospectus for further details on the disposal.

## HISTORY AND REORGANISATION

### Sanjiang Honam

Sanjiang Honam was established in May 2010 in Jiaxing of the Zhejiang Province with a registered capital of US\$12,000,000 to principally engage in the manufacture and sale of ethylene oxide, ethylene glycol, oxygen, nitrogen and argon. Sanjiang Honam is a sino-foreign joint venture company jointly controlled by Sanjiang Chemical and Honam Petrochemical Corp. (湖南石油化學株式會社) which is an Independent Third Party. Each of Sanjiang Chemical and Honam Petrochemical Corp. holds 50% of the shareholding interest in Sanjiang Honam. Please refer to the section headed “Business – Joint venture arrangement with Honam Petrochemical Corp.” in this prospectus for further details on the joint venture arrangement between Sanjiang Chemical and Honam Petrochemical Corp..

### INVESTMENT IN OUR GROUP

#### Investment by the Preference Shares Investors

On 16 May 2010, pursuant to a convertible preference shares subscription and shareholders’ agreement dated 8 September 2009 and entered into by and among Sure Capital, BOCOM Holdings, our Company (under its previous name of Full Wealth Limited (滿裕有限公司)), Capitol International and Mr. Guan, as supplemented and amended by (1) a supplemental agreement dated 27 November 2009 and entered into by and among the same parties (as for our Company, under its previous name of Full Wealth Limited (滿裕有限公司)); (2) a consent letter dated 27 November 2009 and entered into by and among the same parties (as for our Company, under its previous name of Full Wealth Limited (滿裕有限公司)); and (3) a supplemental agreement dated 8 April 2010 and entered into by and among the same parties (collectively as the “**Preference Shares Agreement**”), the Preference Shares Investors subscribed for an aggregate of 2,000 preference shares of US\$10,000 each in Sure Capital (the “**Convertible Preference Shares**”), which are convertible into Shares at a ratio of 2,000 Convertible Preference Shares to 18,000 Shares (or such number of Shares representing approximately 11.65% of the total issued share capital of the Company immediately prior to the completion of the Global Offering and the Capitalisation Issue) (the “**Conversion Ratio**”), for an aggregate consideration of US\$20 million, as to (1) 714 preference shares to BOCOM Holdings for a consideration of US\$7,132,575.76; (2) 460 preference shares to Chemwin Limited for a consideration of US\$4,600,757.58; (3) 400 preference shares to UVM Venture Investments Limited for a consideration of US\$4,000,000.00; (4) 233 preference shares to CITIC International Assets Management Limited (中信國際資產管理有限公司) for a consideration of US\$2,333,333.33; (5) 133 preference shares to Rich Honour Holdings Limited (諾信控股有限公司) for a consideration of US\$1,333,333.33; and (6) 60 preference shares to Central Harvest Holdings Company Limited (滙盛控股有限公司) for a consideration of US\$600,000.00.

The consideration payable by the Preference Shares Investors to Sure Capital for the Convertible Preference Shares was determined after arm’s length commercial negotiation between the parties with reference to the earnings of our Group for the year ended 31 December 2008, the future earnings potential of our Group and the trading multiples of industry comparables at the time of investment. The aggregate consideration of US\$20 million was paid in full as to US\$10 million on 11 September 2009, US\$7 million on 19 March 2010 and US\$3 million on 23 March 2010. As the Convertible Preference Shares were issued by Sure Capital to Preference Shares Investors, any fair value changes in the Convertible Preference Shares will only affect the accounts of Sure Capital and the Preference Shares Investors. The change in fair value of the Convertible Preference Shares would have no impact on the financial position or results of operations of our Group.

## HISTORY AND REORGANISATION

### Principal terms of the Preference Shares Agreement

The principal terms and conditions of the Preference Shares Agreement are as follows:

- |  |  |
|--|--|
| (A) Total subscription amount:                       | The Preference Shares Investors shall pay to Sure Capital an aggregate sum of US\$20,000,000 for subscription of the Convertible Preference Shares, of which (1) US\$10,000,000 (the “ <b>First Installment</b> ”) shall be deposited by the Preference Shares Investors into a designated bank account opened and maintained by Sure Capital within 5 business days of the signing of the convertible preference shares subscription and shareholders’ agreement dated 8 September 2009; and (2) US\$10,000,000 (the “ <b>Balance</b> ”) shall be paid by the Preference Shares Investors to Sure Capital upon satisfaction of all the conditions precedents set forth in the Preference Shares Agreement and upon completion in accordance with the terms and conditions of the Preference Shares Agreement. |
| (B) Number of preference shares:                     | 2,000 Convertible Preference Shares of US\$10,000 each, representing 100% of the total issued preference shares in Sure Capital.   |
| (C) Restriction on the use of the First Installment: | Sure Capital shall not utilise the First Installment unless and until, among other conditions, receipt by the Preference Shares Investors of the Security Documents (as defined under (J) below).  |
| (D) Interests on the First Installment:              | Sure Capital shall pay interest on the First Installment to the Preference Shares Investors from the date on which Sure Capital has the right to utilise the First Installment in accordance with the Preference Shares Agreement up to the completion date as stipulated in the Preference Shares Agreement (or where relevant, the date on which Sure Capital becomes liquidated or such Convertible Preference Shares have been redeemed and cancelled in accordance with the Preference Shares Agreement) (both days inclusive), at the rate of 15% per annum; provided that Sure Capital shall have no obligations to pay the aforementioned interests if the Listing shall take place before 30 June 2011.   |

## HISTORY AND REORGANISATION

Such interests shall, notwithstanding the above, become payable by Sure Capital before the Listing if (1) Sure Capital shall become liquidated, or (2) there has occurred any event of default as set out in the Preference Shares Agreement.

- (E) Dividends on the Convertible Preference Shares:

Holders of the Convertible Preference Shares shall be entitled to a dividend at the rate of 15% per annum of the total subscription amount of US\$20,000,000, calculated on the basis of a 360-day year and the actual number of days elapsed, calculating from the completion date as stipulated in the Preference Shares Agreement up to the date when such Convertible Preference Shares are redeemed and cancelled in accordance with the Preference Shares Agreement (or where relevant, the date on which Sure Capital becomes liquidated) (both days inclusive); provided that Sure Capital shall have no obligations to pay the aforementioned dividends to the holders of the Convertible Preference Shares if the Listing shall take place before 30 June 2011, subject further to the condition that prior to the Listing such dividends shall, notwithstanding the above, become payable by Sure Capital only if (1) Sure Capital shall become liquidated, or (2) there has occurred any event of default as set out in the Preference Shares Agreement.

- (F) Right to demand payment of interests and dividends and right of redemption in the event of late listing:

If the Company shall be unable to become listed (whether by way of the Listing or other qualified initial public offering as defined in the Preference Shares Agreement) prior to 30 June 2011 or there has occurred any event of default as set out in the Preference Shares Agreement, the Preference Shares Investors shall be entitled to require Sure Capital to:

- (1) pay the interests and dividends accrued under (D) and (E) above respectively; and
- (2) repay to the Preference Shares Investors the aggregate amount of US\$20,000,000, being the total subscription money paid by the Preference Shares Investors for the Convertible Preference Shares;

## HISTORY AND REORGANISATION

and in such event, Sure Capital shall be entitled to require the Preference Shares Investors to transfer all such Convertible Preference Shares to Sure Capital or its nominee.

The Preference Shares Investors have no intention to request Sure Capital to redeem the Convertible Preference Shares before the Listing.

(G) Conversion right:

The Preference Shares Investors may at any time prior to 8 a.m. on the Listing Date exercise their right to convert their Convertible Preference Shares into Shares at the Conversion Ratio by serving a conversion notice (the “**Conversion Notice**”) to Sure Capital. Within 10 business days (i.e. any day except Saturdays, Sundays and any day on which commercial banks in Hong Kong are not to open for business pursuant to the relevant laws and government regulations) of the receipt by Sure Capital of such Conversion Notice, Sure Capital shall redeem and cancel such number of the Convertible Preference Shares as stipulated in the Conversion Notice, and Sure Capital shall transfer to the relevant Preference Shares Investors the relevant number of Shares, at the Conversion Ratio.

(H) Mandatory conversion:

Unless all the issued Convertible Preference Shares shall have been redeemed and cancelled previously, all the outstanding issued Convertible Preference Shares shall, upon 8 a.m. on the Listing Date, be redeemed and cancelled by Sure Capital and Sure Capital shall procure the Company to allot and issue to the Preference Shares Investors an aggregate of 18,000 Shares, representing approximately 11.65% of the total issued share capital of the Company immediately prior to the completion of the Global Offering and the Capitalisation Issue.

## HISTORY AND REORGANISATION

(I) Adjustment of the  
Conversion Ratio:

Provided that there are outstanding issued Convertible Preference Shares capable of being converted into Shares pursuant to the Preference Shares Agreement, the Conversion Ratio may be adjusted, with reference to the opinion of the independent auditors (the “**Independent Auditors**”) as appointed by the Preference Shares Investors (at the costs and expenses of Sure Capital) whose certificate of opinion in respect thereof shall be final and conclusive, in the event that:

- (1) the Company allots and issues any new Shares by way of a capitalisation issue;
- (2) there is consolidation or subdivision of the Shares;
- (3) the Company declares any capital distribution (by means of dividend or distribution of capital profits or capital reserves) (as defined in the Preference Shares Agreement); or
- (4) in the opinion of the Independent Auditors there is such other causes that the Conversion Ratio shall be adjusted.

However, no adjustment will be made in case the allotment and issue of Shares by the Company are pursuant to (i) the exercise of options which may be granted by the Company under the Share Option Scheme or other similar share option scheme; or (ii) the Global Offering and the Capitalisation Issue.

(J) Security documents:

The performance by each of Sure Capital, the Company, Capitol International and Mr. Guan of their respective obligations under the Preference Shares Agreement are guaranteed or secured by (where relevant) the following security documents:

- (1) the deed of undertaking dated 27 November 2009 and executed by Mr. Guan in favour of BOCOM Holdings;
- (2) the deed of undertaking dated 27 November 2009 and executed by Ms. Han in favour of BOCOM Holdings;

## HISTORY AND REORGANISATION

- (3) the deed of charge dated 27 November 2009 and executed by Mr. Guan in favour of BOCOM Holdings, pursuant to which Mr. Guan, by way of a first fixed charge, has charged his 49% shareholding interests in Sure Capital in favour of BOCOM Holdings;
- (4) the deed of charge dated 27 November 2009 and executed by Sure Capital in favour of BOCOM Holdings, pursuant to which Sure Capital, by way of a first fixed charge, has charged its 39.92% shareholding interest in the Company in favour of BOCOM Holdings;
- (5) a deed of charge dated 27 November 2009 and executed by the Company in favour of BOCOM Holdings, pursuant to which the Company, by way of a first fixed charge, has charged its 49% shareholding interests in Capitol International in favour of BOCOM Holdings;
- (6) a deed of undertaking dated 27 November 2009 and executed by Capitol International and Mr. Guan, Ms. Han and Mr. Han Jianping (in their respective capacity as directors of Sanjiang Chemical) in favour of BOCOM Holdings in relation to the shareholding interest in Sanjiang Chemical legally and beneficially held by Capitol International; and
- (7) a deed of undertaking dated 27 November 2009 and executed by Capitol International and Mr. Guan, Ms. Han and Mr. Han Jianping (in their respective capacity as directors of Yongming Petrochemical) in favour of BOCOM Holdings in relation to the shareholding interest in Yongming Petrochemical legally and beneficially held by Capitol International.

(collectively, as the “**Security Documents**”)

## HISTORY AND REORGANISATION

Certain other rights of the Preference Shares Investors under the terms of the Preference Shares Agreement are set out as follows:

- (A) Right of first refusal: Mr. Guan and the Preference Shares Investors shall have the first right of refusal in relation to any allotment and issue of new shares or any convertible securities by the Company prior to the Listing in proportion to their respective shareholding interests in the Company.
- (B) Tag-along right: At any time prior to the Listing, in the event that Mr. Guan proposes to dispose of his direct or indirect shareholding interests in the Company such that his effective shareholding interest in the Company shall fall below 10% of the total issued share capital of the Company, Mr. Guan shall forthwith notify the Preference Shares Investors of the identity of the intended transferee of such Shares; and after receipt of such notice, the Preference Shares Investors may elect to exercise their right to require Mr. Guan to procure such third party purchaser to acquire the entire shareholding interests in the Company held by the Preference Share Investors (including all such Convertible Preference Shares and ordinary shares) on the same terms and conditions and for completion of the sale simultaneously as Mr. Guan's disposal of his shareholding interests in the Company.
- (C) Right to appoint directors: The Preference Shares Investors shall have the right to appoint one director to the board of each of Sure Capital and each member of the Group (the “**Investors’ Nominee Director(s)**”). If any of the Restricted Matters (as defined in (D) below) shall be put to voting at a board of directors’ meeting of Sure Capital or any Group company, such resolutions may only be approved by all the directors (including the Investors’ Nominee Directors) of the relevant board of directors unanimously.

## HISTORY AND REORGANISATION

- (D) Restricted matters: Prior to the Listing, without the prior approval of the Preference Shares Investors as Shareholders, the Company shall not, and shall procure other Group companies and their respective associated companies not to, pass resolutions or take any actions (save and except for the purposes of the Reorganisation and the Listing) in relation to the restricted matters set forth in the Preference Shares Agreement (the “**Restricted Matters**”). The Restricted Matters include, among others, change of principal business, merger and acquisition, liquidation or dissolution, adoption or amendment of constitutional documents, disposal of substantial part of the Shares or assets, revision of dividend policy, declaration of dividend, adoption of employee share option scheme and appointment of auditors, sponsors, global coordinator, bookrunner or underwriters.
- (E) Information rights: The Company and other Group companies shall provide to the Preference Shares Investors, on a regular basis, the relevant management accounts, audited annual results and other consolidated operational and financial information in relation to the Group.
- Within 7 days of receipt by the Company of any written enquiry from the Preference Shares Investors, the Company shall procure the relevant Group company(ies) to furnish to the Preference Shares Investors a copy of such information as required by the Preference Shares Investors.

The foregoing rights of the Preference Shares Investors and each of the Security Documents will lapse upon the Listing. Save as disclosed above, there were no other special rights granted to the Preference Shares Investors.

### Investment by the Ordinary Shares Investors

On 7 December 2009, pursuant to an ordinary shares subscription agreement dated 24 November 2009 and entered into between Sure Capital, Galaxy Century International Investment Limited (銀河世紀國際投資有限公司) and 北京博馬凱睿投資有限公司 (Beijing Boma Carret Investment Co., Ltd.\*) , and a deed of confirmation dated 7 December 2009 and executed by and among Sure Capital, our Company (under its previous name of Full Wealth Limited (滿裕有限公司)), Capitol International, 北京博馬凱睿投資有限公司(Beijing Boma Carret Investment Co., Ltd.\*) and Mr. Guan in favour of the Ordinary Shares Investors (collectively as the “**Ordinary Shares Agreement**”), the Company allotted and issued an aggregate of 7,920 Old Shares to the Ordinary Shares Investors for an aggregate consideration of US\$10 million, as to (1) 924 Old Shares to CITIC International Assets Management Limited (中信國際資產管理有限公司) for a consideration of US\$1,166,666.67; (2) 2,376 Old Shares to Creation One International Limited (創一國際有限公司) for a consideration of US\$3,000,000; (3) 1,821 Old Shares to Chemwin Limited for a consideration of US\$2,299,242.42; (4) 528 Old Shares to Rich Honour Holdings Limited (諾信控股有限公司) for a consideration of US\$666,666.67; and (5) 2,271 Old Shares to BOCOM Holdings for a consideration of US\$2,867,424.24.

## HISTORY AND REORGANISATION

The consideration payable by the Ordinary Shares Investors to the Company for the 7,920 Old Shares was determined after arm's length commercial negotiation between the parties with reference to the earnings of our Group for the year ended 31 December 2008, the future earnings potential of our Group and the trading multiples of industry comparables at the time of investment. The aggregate consideration of US\$10 million was paid in full on 7 December 2009.

The other major terms of the Ordinary Shares Agreement are set out as follows:

- (A) Right to require Sure Capital to purchase Shares held by the Ordinary Shares Investors:
- In the event that the Company could not complete a qualified initial public offering (i.e. an initial public offering (by way of allotment of new Shares) and the permission to deal in the Shares on an international stock exchange, for which the market capitalisation of the Company shall be not less than HK\$2,000,000,000 (or any other market capitalisation as agreed by BOCOM Holdings in writing) upon listing and raising proceeds of not less than HK\$500,000,000) (“**Qualified IPO**”) by 30 June 2011, the Ordinary Shares Investors shall be entitled to require Sure Capital to purchase all the Old Shares held by the Ordinary Shares Investors at the aggregate consideration of US\$10 million plus interests at the rate of 15% per annum accrued and calculated on the basis of a 360-day year.

The Global Offering will be regarded as a “Qualified IPO” under the Ordinary Shares Agreement. The Ordinary Shares Investors have no intention to request Sure Capital to purchase the Old Shares held by them before the Listing.

- (B) Anti-dilution:
- If the Company issues any new Shares prior to completion of the Qualified IPO such that the shareholding interests of the Ordinary Shares Investors in the Company shall be diluted and fall below 6%, Sure Capital shall transfer to the Ordinary Shares Investors such number of Shares so that the Ordinary Shares Investors shall hold not less than 6% of the enlarged total issued share capital in the Company, except where any such dilution is as a result of the investment in the Company by Tengfei Gongmao.

The above special rights to the Ordinary Shares Investors shall lapse upon the Listing. Save as disclosed above, there were no other special rights granted to the Ordinary Shares Investors.

## HISTORY AND REORGANISATION

### Investment by the New Investors

On 8 January 2010, pursuant to certain agreement between Sure Capital and Boma Carret China Investment Company Limited (博馬凱睿中國投資有限公司) (“**Boma Carret**”), as confirmed by a confirmatory deed dated 5 May 2010 and executed by Sure Capital and Boma Carret (in both cases as agent and for and on behalf of each of Global Fortune Muster Investment Ltd. (祥聚投資有限公司) (“**Global Fortune**”), Hanbest Investment Limited (凱佳投資有限公司) (“**Hanbest**”), Strength High Group Limited (“**Strength High**”), Million Wisdom International Limited (萬聰國際有限公司) (“**Million Wisdom**”) and Ever Raise International Limited (常展國際有限公司) (“**Ever Raise**”), as supplemented by a supplemental deed dated 9 August 2010 and executed by Sure Capital and Boma Carret (as agent and for and on behalf of the above-mentioned investors) varying certain terms of the agreement regarding the manner of payment of the consideration, Sure Capital transferred an aggregate of 17,820 Old Shares for an aggregate consideration of US\$22.5 million (based on a consideration of US\$1,262.626 per Old Share) to each of Global Fortune, Hanbest, Strength High, Million Wisdom and Ever Raise as designated by Boma Carret, as to (1) 1,320 Old Shares to Global Fortune at a total consideration of US\$1,666,666.67; (2) 1,320 Old Shares to Hanbest at a total consideration of US\$1,666,666.67; (3) 3,960 Old Shares to Strength High at a total consideration of US\$5,000,000.00; (4) 4,884 Old Shares to Million Wisdom at a total consideration of US\$6,166,666.67; and (5) 6,336 Old Shares to Ever Raise at a total consideration of US\$8,000,000.00.

On 8 January 2010, pursuant to certain agreement between Sure Capital and Gold Dynamic Asia Limited (金動力亞洲有限公司) (“**Gold Dynamic**”), as confirmed by a confirmatory deed dated 5 May 2010 and executed by and between the Company and Gold Dynamic, as supplemented by a supplemental deed dated 5 August 2010 and executed by Sure Capital and Gold Dynamic varying certain terms of the agreement regarding the manner of payment of the consideration, Sure Capital transferred 6,072 Old Shares to Gold Dynamic for a total consideration of US\$7,666,666.67 (based on a consideration of US\$1,262.626 per Old Share).

On 8 January 2010, pursuant to certain agreement between Sure Capital and Supra Grade Holdings Limited (越級控股有限公司) (“**Supra Grade**”), as confirmed by a confirmatory deed dated 5 May 2010 and executed by and between the Company and Supra Grade, as supplemented by a supplemental deed dated 5 August 2010 and executed by Sure Capital and Supra Grade varying certain terms of the agreement regarding the manner of payment of the consideration, Sure Capital transferred 5,940 Old Shares to Supra Grade for a total consideration of US\$7,500,000.00 (based on a consideration of US\$1,262.626 per Old Share).

The consideration of US\$1,262.626 per Old Share payable by each of the New Investors was determined after arm’s length commercial negotiation among the relevant parties and also with reference to the consideration per Old Share payable by the Ordinary Shares Investors under the Ordinary Shares Agreement of approximately US\$1,262.626 per Old Share (without taking into account the number of Shares to be transferred from Sure Capital to the Ordinary Share Investors pursuant to the anti-dilution provision of the Ordinary Shares Agreement).

## HISTORY AND REORGANISATION

The consideration payable by each of the New Investors in respect of the relevant Old Shares under the respective agreements (as amended and supplemented) is set forth in the table below:

Name	Number of Old Shares	Total consideration (US\$)	Consideration payable on or before 8 January 2010 (US\$)	Consideration payable on or before 12 May 2010 (US\$)	Consideration payable on or before 5 August 2010 (US\$)
Global Fortune	1,320	1,666,666.67	108,276.43	108,284.35	1,450,105.89
Hanbest	1,320	1,666,666.67	108,276.43	108,284.35	1,450,105.89
Strength High	3,960	5,000,000.00	324,829.30	324,853.04	4,350,317.66
Million Wisdom	4,884	6,166,666.67	400,622.81	400,652.09	5,365,391.77
Ever Raise	6,336	8,000,000.00	519,726.88	519,764.87	6,960,508.25
Gold Dynamic	6,072	7,666,666.67	2,923,463.72	2,923,677.40	1,819,525.55
Supra Grade	5,940	7,500,000.00	2,923,463.72	2,923,677.40	1,652,858.88
Total:	<u>29,832</u>	<u>37,666,666.68</u>	<u>7,308,659.29</u>	<u>7,309,193.50</u>	<u>23,048,813.89</u>

The consideration payable by each of the New Investors has been paid in full on 5 August 2010.

No special right was granted to the New Investors under their respective agreements entered into with Sure Capital.

### Investment by Pasicue

On 6 May 2010, pursuant to a share subscription agreement dated 6 May 2010 and entered into between Sure Capital and the Company, Sure Capital subscribed for an aggregate of 4,470 Old Shares of US\$1 each at par.

On 6 May 2010, pursuant to a share transfer agreement dated 6 May 2010 and entered into between Sure Capital as vendor and Pasicue as purchaser (the “**Pasicue Investment Agreement**”), Sure Capital transferred an aggregate of 3,888 Old Shares to Pasicue for a consideration of US\$1,464,301.9 which has been paid in full. At the relevant time, Pasicue was nominated by Tengfei Gongmao to hold the Old Shares for and on behalf of Tengfei Gongmao. Tengfei Gongmao is a former minority shareholder of Sanjiang Chemical. It is a limited liability company established in the PRC which is owned as to 90% by Mr. Teng Guoping (滕國平) (“**Mr. Teng**”), 5% by Mr. Ren Jianmin (任建民) and 5% by Mr. Ma Qianming (馬遷明), each an Independent Third Party. Tengfei Gongmao is principally engaged in the production of cotton yarn, printing and dyeing products, knitted products, chemical fiber cloth and handcraft products. Under the PRC laws and regulations, a company established in the PRC has to obtain prior approval from the Ministry of Commerce before making direct investment in an offshore company for investment purpose or setting up an offshore company for the purpose of investment. As Tengfei Gongmao had not established any offshore company for investment purpose nor made any application to the Ministry of Commerce for direct investment in such offshore company at the time of its investment in the Shares, in the interest of time, Tengfei Gongmao nominated Pasicue, an offshore company already established, to hold the Shares for and on its behalf at the relevant time. Such consideration was based on a consideration of US\$376.62 per Old Share, which was determined after arm’s length commercial negotiation between Sure Capital and Tengfei Gongmao and having taken into consideration, among others, the price at which

## HISTORY AND REORGANISATION

Tengfei Gongmao transferred its 4.44% equity interests in Sanjiang Chemical to Capitol International in November 2009 (i.e., RMB9,995,071.69 which was equivalent of approximately HK\$11,421,555 under the RMB to HKD exchange rate at the relevant time); and the scale of operation, revenue and earnings of Sanjiang Chemical and other members of our Group. It was then agreed between Sure Capital and Tengfei Gongmao that 4.44% interest in Sanjiang Chemical would translate into an approximate 2.52% interest in our Group. The consideration was payable to Sure Capital within 7 days of the date of the agreement. No special right was granted to Pasicue under the Pasicue Investment Agreement.

Pursuant to a share transfer agreement dated 10 July 2010 and entered into between Tengfei Gongmao, Mr. Teng and Pasicue (“**Pasicue Transfer Agreement**”), Tengfei Gongmao transferred its interests in the 3,888 Old Shares (which was then held by Pasicue on trust for and on behalf of Tengfei Gongmao) to Mr. Teng at a consideration of RMB9,996,600 (which was determined with reference to the consideration paid by Tengfei Gongmao under the Pasicue Investment Agreement). Upon the above transfer, the 3,888 Old Shares were held by Pasicue as Mr. Teng’s investment vehicle on trust for and on behalf of Mr. Teng.

As advised by the PRC Legal Advisers, as the Old Shares were no longer held (directly or indirectly) by Tengfei Gongmao, the holding of the Old Shares by Pasicue on behalf of Tengfei Gongmao prior to the transfer of such Old Shares to Mr. Teng would not result in any adverse implication on the Company under the applicable laws and regulations of the PRC.

### **Lock-up period of the Shares**

The Shares allotted and issued and/or to be allotted and issued to each of the Preference Shares Investors and the Ordinary Shares Investors held by them as of the Listing Date will be subject to a lock-up period commencing from the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date, during which it will not dispose of the Shares or other securities of our Company held by it as of the Listing Date. Thereafter, the Preference Shares Investors and the Ordinary Shares Investors will be entitled to freely dispose of the Shares.

The Shares transferred to and/or to be allotted and issued to each of the New Investors and Pasicue held by them as of the Listing Date will be subject to a lock-up period commencing from the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date, during which it will not dispose of the Shares or other securities of our Company held by it as of the Listing Date. In the period of six months commencing from the date which is six months from the Listing Date, unless with the prior written consent of the Sole Global Coordinator, each of the New Investors and Pasicue will not dispose of the Shares or other securities of our Company held by it as of the Listing Date.

The different length of lock-up period between (i) the Preference Shares Investors and the Ordinary Shares Investors and (ii) the New Investors and Pasicue was arrived at after arm’s length commercial negotiations reached between the relevant parties and the Company, having considered that the New Investors and Pasicue invested in the Company at a later stage than the Preference Shares Investors and the Ordinary Share Investors.

Please refer to the sections headed “Underwriting – Undertakings pursuant to the Underwriting Agreement” and “Underwriting – Undertakings by the Independent Investors” in this prospectus for details on the lock-up undertakings.

## HISTORY AND REORGANISATION

### Shareholding interests of the Independent Investors in the Company and the relevant consideration paid

The table below sets forth the number of Shares and Convertible Preference Shares held by the Independent Investors (where appropriate) and the consideration paid by each of them:

Name	Number of Shares held as at the Latest Practicable Date (a)	Number of Convertible Preference Shares held as at the Latest Practicable Date (b)	Maximum number of Shares to be allotted and issued upon conversion of the Convertible Preference Shares (c)	Number of Shares to be transferred from Sure Capital to the Ordinary Shares Investors pursuant to the anti-dilution provision of the Ordinary Shares Capitalisation Issue Agreement (a) + (b) + (c) (Note 1)	Total Number of Shares to be held immediately before completion of the Global Offering and the Capitalisation Issue (Note 1)	Approximate percentage of shareholding in the Company immediately before completion of the Global Offering and the Capitalisation Issue (Note 1)	Number of Shares held immediately upon completion of the Global Offering and the Capitalisation Issue (Note 1)	Approximate percentage of shareholding in the Company immediately upon completion of the Global Offering and the Capitalisation Issue (Note 1)	Approximate total consideration paid (HK\$) (Note 2) (e)	Approximate cost per Share paid by the Independent Investors (HK\$) (Note 2) (e) ÷ (d)	Approximate discount to the Offer Price based on the low end of the Offer Price of HK\$2.38	Approximate discount to the Offer Price based on the mid-point of the Offer Price of HK\$2.88	Approximate discount to the Offer Price based on the high end of the Offer Price of HK\$3.38
BOCOM Holdings	2,271	714	6,419	310	9,000	5.83%	44,100,000	4.37%	78,057,909	1.77	25.63%	38.54%	47.63%
Chenwin Limited	1,821	460	4,141	248	6,210	4.02%	30,429,000	3.01%	53,814,091	1.77	25.63%	38.54%	47.63%
UVM Venture Investments Limited	Nil	400	3,600	Nil	3,600	2.33%	17,640,000	1.75%	31,200,000	1.77	25.63%	38.54%	47.63%
CITIC International Assets Management Limited	924	233	2,100	126	3,150	2.04%	15,435,000	1.53%	27,274,000	1.77	25.63%	38.54%	47.63%
Rich Honour Holdings Limited	528	133	1,200	72	1,800	1.17%	8,820,000	0.87%	15,574,000	1.77	25.63%	38.54%	47.63%
Central Harvest Holdings Company Limited	Nil	60	540	Nil	540	0.35%	2,646,000	0.26%	4,680,000	1.77	25.63%	38.54%	47.63%
Creation One International Limited	2,376	Nil	Nil	324	2,700	1.75%	13,230,000	1.31%	23,400,000	1.77	25.63%	38.54%	47.63%
Global Fortune	1,320	Nil	Nil	Nil	1,320	0.85%	6,468,000	0.64%	13,000,000	2.01	15.55%	30.21%	40.53%
Hanbest	1,320	Nil	Nil	Nil	1,320	0.85%	6,468,000	0.64%	13,000,000	2.01	15.55%	30.21%	40.53%
Strength High	3,960	Nil	Nil	Nil	3,960	2.56%	19,404,000	1.92%	39,000,000	2.01	15.55%	30.21%	40.53%
Million Wisdom	4,884	Nil	Nil	Nil	4,884	3.16%	23,931,600	2.37%	48,100,000	2.01	15.55%	30.21%	40.53%
Ever Raise	6,336	Nil	Nil	Nil	6,336	4.10%	31,046,400	3.08%	62,400,000	2.01	15.55%	30.21%	40.53%
Gold Dynamic	6,072	Nil	Nil	Nil	6,072	3.93%	29,752,800	2.95%	59,800,000	2.01	15.55%	30.21%	40.53%
Supra Grade	5,940	Nil	Nil	Nil	5,940	3.85%	29,106,000	2.88%	58,500,000	2.01	15.55%	30.21%	40.53%
Pasicue	3,888	Nil	Nil	Nil	3,888	2.52%	19,051,200	1.89%	11,421,555	0.60	74.49%	79.17%	82.25%
<b>Total:</b>	<b>41,640</b>	<b>2,000</b>	<b>18,000</b>	<b>1,080</b>	<b>60,720</b>	<b>39.31%</b>	<b>297,528,000</b>	<b>29.48%</b>	<b>539,221,555</b>				

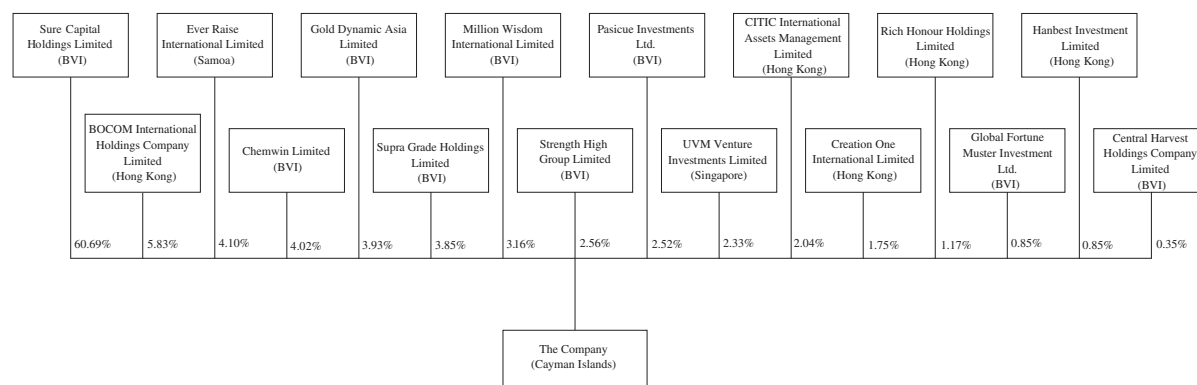
**Notes:**

- Assuming all the Convertible Preference Shares are converted into Shares immediately prior to the Listing, and excluding the Shares that may be allotted and issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.
- Converted into HK\$ for illustration purposes at the rate of HK\$7.8 to US\$1.

## HISTORY AND REORGANISATION

### Shareholding structure of the Company upon completion of the pre-IPO investments

The following chart sets forth the shareholding structure of the Company immediately after completion of the investments by the Independent Investors (assuming that all Convertible Preference Shares have been converted into Shares):



### PRE-IPO INVESTMENTS AND THE INDEPENDENT INVESTORS

At the relevant time, our Group was looking for financial investors to invest into our Group to improve its capital structure, broaden our shareholder base and enhance our financial resources for the expansion and development of our ethylene oxide and surfactant businesses and production capacity as well as the funding for the internal restructuring of our Group.

CITIC International Assets Management Limited (中信國際資產管理有限公司), Chemwin Limited, UVM Venture Investments Limited, Creation One International Limited (創一國際有限公司), Rich Honour Holdings Limited (諾信控股有限公司) and Central Harvest Holdings Company Limited (滙盛控股有限公司) were co-investors of BOCOM Holdings, which lead managed the investments in our Group.

Boma Carret is wholly owned by Mr. Zheng Suyi (鄭蘇毅) who is the director of Boma Carret and also the beneficial owner of Ever Raise, one of the New Investors. Boma Carret is a consultant to Mr. Guan and has assisted our Group's pre-IPO financing by introducing investors to our Group.

The New Investors were also interested in investing in our Group. However, in order not to further dilute the interests of the Ordinary Share Investors and the Preference Shares Investors in our Company and as the New Investors were willing to invest at a price similar to that of the Ordinary Shares Investors, Sure Capital, as our major shareholder, agreed to sell certain of its Old Shares to the New Investors.

Among the New Investors, Global Fortune, Hanbest, Strength High and Million Wisdom were introduced by Boma Carret. Each of the beneficial owners of Global Fortune, Hanbest, Strength High and Million Wisdom were friends of Mr. Zheng Suyi (鄭蘇毅) with long-term business relationship with him.

The beneficial owners of Gold Dynamic and Supra Grade were friends of Mr. Guan for over 10 years.

## HISTORY AND REORGANISATION

Prior to the transfer of the interest in the 3,888 Old Shares (which was then held by Pasicue on trust for and on behalf of Tengfei Gongmao) from Tengfei Gongmao to Mr. Teng in July 2010, Pasicue was nominated by Tengfei Gongmao to hold the Old Shares on its behalf. Tengfei Gongmao was a former minority shareholder of Sanjiang Chemical. In view of the long term business relationship between our Group and Tengfei Gongmao, Sure Capital agreed to sell certain Old Shares to Tengfei Gongmao. The number and the consideration for Old Shares were determined after arm's length commercial negotiations between Sure Capital and Tengfei Gongmao and having taken into consideration, among others, the price at which Tengfei Gongmao transferred its 4.44% equity interests in Sanjiang Chemical to Capitol International in November 2009 (i.e., RMB9,995,071.69 which was equivalent of approximately HK\$11,421,555 under the RMB to HKD exchange rate at the relevant time); and the scale of operation, revenue and earnings of Sanjiang Chemical and other members of our Group. It was then agreed between Sure Capital and Tengfei Gongmao that 4.44% interest in Sanjiang Chemical would translate into an approximate 2.52% interest in our Group.

In July 2010, Tengfei Gongmao transferred its interests in the 3,888 Old Shares (which was then held by Pasicue on trust for and on behalf of Tengfei Gongmao) to Mr. Teng. Upon completion of the above transfer, such Shares were held by Pasicue on trust for and on behalf of Mr. Teng.

The proceeds from the investment in our Company by the Preference Shares Investors and the Ordinary Shares Investors are used to provide funding for the Reorganisation, whereas the proceeds from the investment in our Company by the New Investors and Pasicue are used by Sure Capital for investment in the companies (other than the Company and its subsidiaries) held by Sure Capital.

### **Ordinary Shares Investors and Preference Shares Investors**

BOCOM Holdings is a company incorporated in Hong Kong in 1998 and a wholly-owned subsidiary of 交通銀行股份有限公司 (Bank of Communications Co., Ltd.), whose H shares are listed on the Main Board of the Stock Exchange. Through its subsidiaries, namely BOCOM Asia, BOCOM Securities and BOCOM International Asset Management Limited, BOCOM Holdings provides investment banking, securities brokerage and asset management services in Hong Kong. It is an independent investor of the Company.

Chemwin Limited is a company incorporated in BVI in 2009 and is beneficially owned by 中國中信集團公司 (the CITIC Group\*). CITIC Group is a state-authorised investment institution and a large state-owned multinational conglomerate with a full range of financial businesses, including banking, securities, insurance, trust, fund, asset management and futures. It is also involved in other business areas such as real estate and regional development, project contracting, infrastructure, resources and energy, manufacturing, information technology and high-tech industries.

CITIC International Assets Management Limited (中信國際資產管理有限公司) is a company incorporated in Hong Kong in 1982 and is owned as to 40% by CITIC International Financial Holdings Limited (which is in turn beneficially owned by the CITIC Group, the beneficial owner of Chemwin Limited), 25% by Asset Managers Holdings Co., Ltd., 20% by Ithmaar Bank B.S.C., and 15% by Mega Rider Offshore Ltd., all being Independent Third Parties. It is principally engaged in the management and recovery of non-performing loans and fund management and explores China related assets management business through venture capital and direct investments.

UVM Venture Investments Limited is a fund management company incorporated in Singapore in 2006 and is owned by over 70 shareholders.

## HISTORY AND REORGANISATION

Creation One International Limited (創一國際有限公司) is a company incorporated in Hong Kong in 1997 and is owned in equal shares by Mr. Wang Feng (王鋒) and Mr. Shen Hong Chun (申洪淳), both being Independent Third Parties. It is principally engaged in international trading of machinery.

Rich Honour Holdings Limited (諾信控股有限公司) is a company incorporated in Hong Kong in 2007 and is owned by Mr. Chung Keng (鍾鏗), an Independent Third Party. It is a company principally engaged in investment holding. In addition to its investment in the Shares, it also holds other pre-IPO investments.

Central Harvest Holdings Company Limited (滙盛控股有限公司) is a company incorporated in BVI in 2003 and is owned by Mr. Liu Youhui (劉友輝), an Independent Third Party. It is an investment holding company and has no assets or investments other than the Shares.

### **New Investors**

Global Fortune Muster Investment Ltd. (祥聚投資有限公司) is a company incorporated in BVI in 2004 and is wholly-owned by Mr. Zhu Ming (朱明), an Independent Third Party. It is an investment holding company and has no assets or investments other than the Shares.

Hanbest Investment Limited (凱佳投資有限公司) is a company incorporated in Hong Kong in 2009 and is wholly-owned by Ms. Leung Wai Sheung (梁懷湘), an Independent Third Party. It is an investment holding company and has no assets or investments other than the Shares.

Strength High Group Limited is a company incorporated in BVI in 2004 and is wholly-owned by Mr. Huang Ye (黃野), an Independent Third Party. It is an investment holding company and has no assets or investments other than the Shares.

Million Wisdom International Limited (萬聰國際有限公司) is a company incorporated in BVI in 2009 and is wholly-owned by Mr. Lai Kwing Chin (黎炯前), an Independent Third Party. It is an investment holding company and has no assets or investments other than the Shares.

Ever Raise International Limited (常展國際有限公司) is a company incorporated in Samoa in 2008 and is wholly-owned by Mr. Zheng Suyi (鄭蘇毅), the director and 100% beneficial owner of Boma Carret and an Independent Third Party. It is an investment holding company and has no assets or investments other than the Shares.

Gold Dynamic Asia Limited (金動力亞洲有限公司) is a company incorporated in BVI in 2009 and is wholly-owned by Mr. Yan Zhongbo (嚴中鉞), an Independent Third Party. It is an investment holding company and has no assets or investments other than the Shares.

Supra Grade Holdings Limited (越級控股有限公司) is a company incorporated in BVI in 2009 and is wholly-owned by Mr. Xie Guorong (謝國榮), an Independent Third Party. It is an investment holding company and has no assets or investment other than the Shares.

## HISTORY AND REORGANISATION

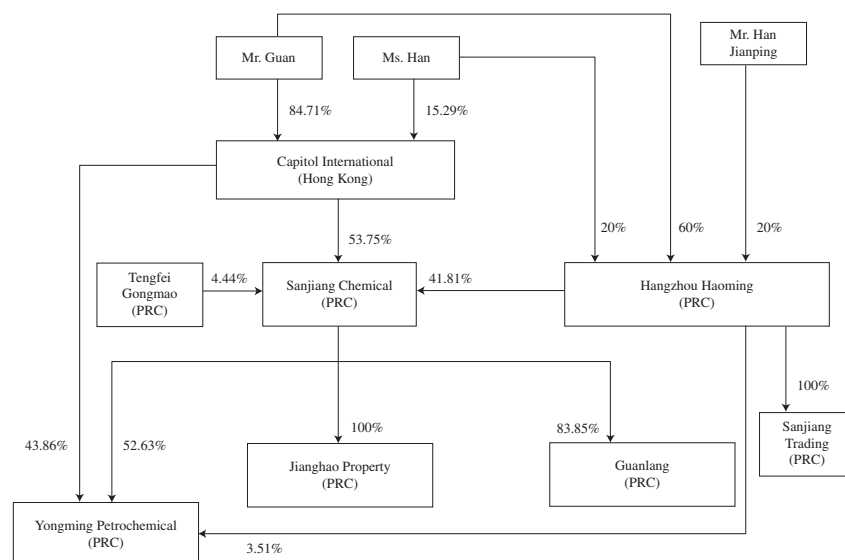
### Pasicue

Pasicue Investments Ltd. (百時吉投資有限公司) is a company incorporated in BVI in 2009 and is wholly-owned by Ms. Wan King Ping Isabelle (尹景蘋), an Independent Third Party. Prior to the transfer of the interest in the 3,888 Old Shares (which was then held by Pasicue on trust for and on behalf of Tengfei Gongmao) from Tengfei Gongmao to Mr. Teng Guoping (滕國平) (“**Mr. Teng**”) in July 2010, Pasicue was nominated by Tengfei Gongmao to hold the Old Shares for and on behalf of Tengfei Gongmao. Tengfei Gongmao, a former minority shareholder of Sanjiang Chemical, is a limited liability company established in the PRC and principally engaged in the production of cotton yarn, printing and dyeing products, knitted products, chemical fiber cloth and handcraft products. Tengfei Gongmao is owned as to 90% by Mr. Teng, 5% by Mr. Ren Jianmin (任建民) and 5% by Mr. Ma Qianming (馬遷明), each an Independent Third Party. Upon the transfer of the interest in the Shares from Tengfei Gongmao (which was then held by Pasicue on trust for and on behalf of Tengfei Gongmao) to Mr. Teng in July 2010, Pasicue was nominated by Mr. Teng to hold the Shares on trust for and on behalf of Mr. Teng.

Each of the Independent Investors is an Independent Third Party and will be regarded as a member of the public after the Listing pursuant to Rule 8.24 of the Listing Rules. Save as disclosed above, each of the Independent Investors has confirmed to the Company that it is independent of (i) our Group, our Directors, the controlling shareholders and their respective associates; and (ii) other Independent Investors. Therefore, the shareholdings of the Independent Investors should not be aggregated and they should not be treated as substantial shareholders of our Company after the Listing for the purpose of Rule 8.24 of the Listing Rules.

### REORGANISATION

The following chart sets forth our corporate and shareholding structure prior to our Reorganisation:



## HISTORY AND REORGANISATION

In preparation for the listing of our Shares on the Stock Exchange, the companies comprising our Group underwent a corporate reorganisation. Please refer to the section headed “Further information about our Company – Group reorganisation” as set out in Appendix VII to this prospectus for details on our Reorganisation. The main steps of our Reorganisation were:

- (A) Our Company was incorporated in the Cayman Islands on 30 January 2009, with one Old Share of US\$1.00 subscribed by an Independent Third Party. On 4 August 2009, such subscriber Old Share was transferred to Sure Capital at par. On the same day, the Company allotted and issued 9,999 Old Shares of US\$1.00 each to Sure Capital at par;
- (B) Capitol International allotted and issued an aggregate of 990,000 shares of HK\$1 each in Capitol International to our Company in September 2009;
- (C) Our Company acquired an aggregate of 10,000 shares of HK\$1 each in Capitol International from Mr. Guan and Ms. Han in September 2009;
- (D) Capitol International acquired 41.81% shareholding interest in Sanjiang Chemical from Hangzhou Haoming at a consideration of RMB94,120,258.39 in November 2009;
- (E) Capitol International acquired 4.44% shareholding interest in Sanjiang Chemical from Tengfei Gongmao at a consideration of RMB9,995,071.69 in November 2009;
- (F) Our Company allotted and issued an aggregate of 7,920 Old Shares to the Ordinary Shares Investors, as to (1) 924 Old Shares to CITIC International Assets Management Limited (中信國際資產管理有限公司); (2) 2,376 Old Shares to Creation One International Limited (創一國際有限公司); (3) 1,821 Old Shares to Chemwin Limited; (4) 528 Old Shares to Rich Honour Holdings Limited (諾信控股有限公司); and (5) 2,271 Old Shares to BOCOM Holdings, for an aggregate consideration of US\$10 million in December 2009;
- (G) Sanjiang Chemical disposed of its entire shareholding interest in Jianghao Property to Jianghao Investment at a consideration of RMB50,000,000 in December 2009;
- (H) Sure Capital transferred an aggregate of 29,832 Old Shares to the New Investors for an aggregate consideration of US\$37,666,666.67 in January 2010, as to (1) 1,320 Old Shares to Global Fortune Muster Investment Ltd. (祥聚投資有限公司); (2) 1,320 Old Shares to Hanbest Investment Limited (凱佳投資有限公司); (3) 3,960 Old Shares to Strength High Group Limited; (4) 4,884 Old Shares to Million Wisdom International Limited (萬聰國際有限公司); (5) 6,336 Old Shares to Ever Raise International Limited (常展國際有限公司); (6) 6,072 Old Shares to Gold Dynamic Asia Limited (金動力亞洲有限公司); and (7) 5,940 Old Shares to Supra Grade Holdings Limited (越級控股有限公司) in January 2010;
- (I) Sanjiang Chemical acquired 3.51% shareholding interest in Yongming Petrochemical from Hangzhou Haoming at a consideration of RMB11,518,262 in January 2010;

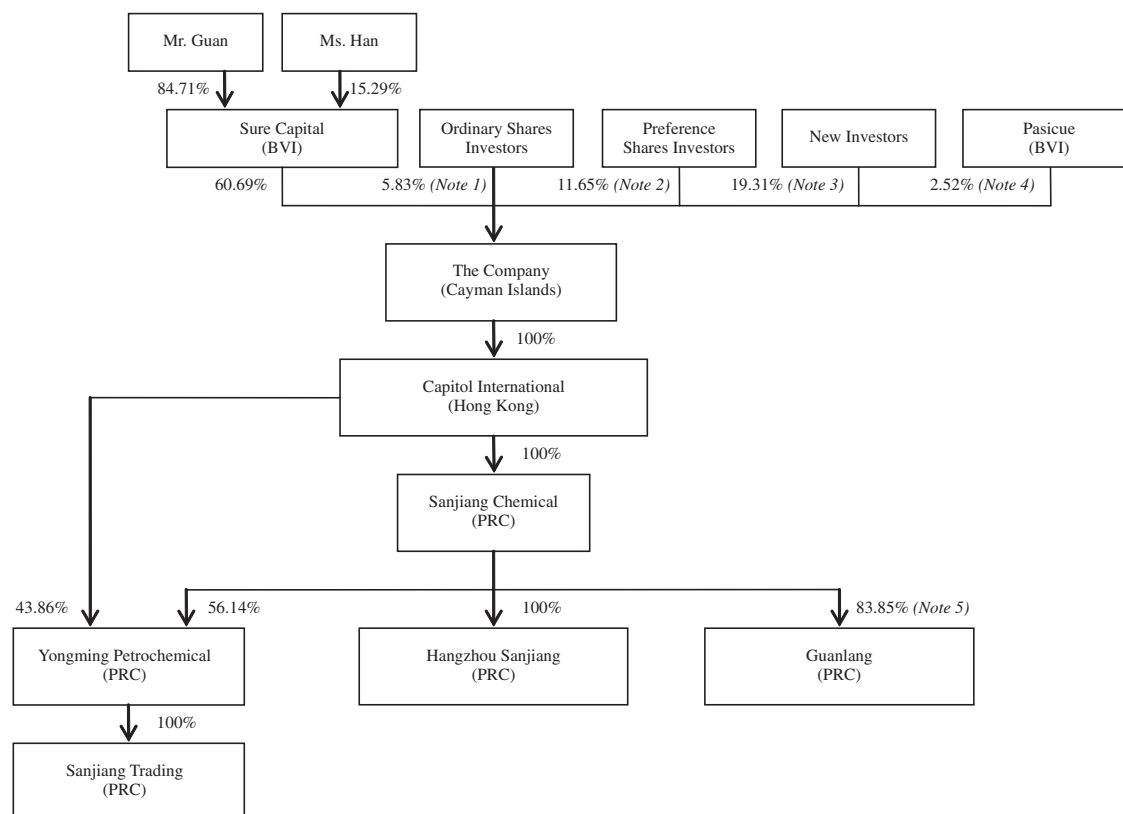
## HISTORY AND REORGANISATION

- (J) Yongming Petrochemical acquired the entire 100% shareholding interest in Sanjiang Trading from Hangzhou Haoming at a consideration of RMB5,000,000 in January 2010;
- (K) Hangzhou Sanjiang was established in April 2010 to engage in the ethylene oxide trading and surfactant manufacture and sale businesses acquired from Hangzhou Haoming;
- (L) Hangzhou Sanjiang acquired the ethylene oxide trading and surfactant manufacture and sale businesses from Hangzhou Haoming at a consideration of RMB6,369,852.08 in April 2010.
- (M) Hangzhou Haoming assigned all its rights and liabilities for its trade debts and receivables in relation to its ethylene oxide trading and surfactant manufacture and sale businesses (being a net liability of RMB874,458.80) as at 31 March 2010 to Hangzhou Sanjiang for a consideration of RMB874,458.80 payable by Hangzhou Haoming to Hangzhou Sanjiang in April 2010;
- (N) Sure Capital subscribed for an aggregate of 4,470 Old Shares of par value of US\$1 each in the Company at par in May 2010;
- (O) Sure Capital transferred an aggregate of 3,888 Old Shares to Pasicue for a consideration of US\$1,464,301.94 in May 2010;
- (P) The Preference Shares Investors subscribed for an aggregate of 2,000 preference shares of US\$10,000 each in Sure Capital, which are convertible into Shares at the ratio of approximately 1 preference share in Sure Capital to 9 Shares, as to (i) 714 preference shares to BOCOM Holdings; (ii) 460 preference shares to Chemwin Limited; (iii) 400 preference shares to UVM Venture Investments Limited; (iv) 233 preference shares to CITIC International Assets Management Limited (中信國際資產管理有限公司); (v) 133 preference shares to Rich Honour Holdings Limited (諾信控股有限公司); and (vi) 60 preference shares to Central Harvest Holdings Company Limited (滙盛控股有限公司), for an aggregate consideration of US\$20 million, in May 2010;
- (Q) Immediately prior to completion of the Global Offering and the Capitalisation Issue, the 2,000 preference shares of US\$10,000 each in Sure Capital as held by the Preference Shares Investors will be redeemed and subsequently cancelled (if not already redeemed and cancelled before then), in consideration of and in exchange for which Sure Capital will procure our Company to allot and issue to the Preference Shares Investors in aggregate 18,000 Shares, as to (1) 6,419 Shares to BOCOM Holdings; (2) 4,141 Shares to Chemwin Limited; (3) 3,600 Shares to UVM Venture Investments Limited; (4) 2,100 Shares to CITIC International Assets Management Limited (中信國際資產管理有限公司); (5) 1,200 Shares to Rich Honour Holdings Limited (諾信控股有限公司); and (6) 540 Shares to Central Harvest Holdings Company Limited (滙盛控股有限公司); and
- (R) In accordance with the anti-dilution provisions in favour of the Ordinary Shares Investors set out in the Ordinary Shares Agreement in the subsection headed “Investment in our Group – Investment by the Ordinary Shares Investors” in this section, Sure Capital will upon completion of the allotment and issue of Shares set out in paragraph (Q) above transfer in aggregate 1,080 Shares to the Ordinary Shares Investors, as to (1) 310 Shares to BOCOM

## HISTORY AND REORGANISATION

Holdings; (2) 324 Shares to Creation One International Limited (創一國際有限公司); (3) 248 Shares to Chemwin Limited; (4) 126 Shares to CITIC International Assets Management Limited (中信國際資產管理有限公司); and (5) 72 Shares to Rich Honour Holdings Limited (諾信控股有限公司).

The following chart sets forth our corporate and shareholding structure immediately following our Reorganisation and is prepared on the assumption that steps (Q) and (R) of our Reorganisation have been completed:



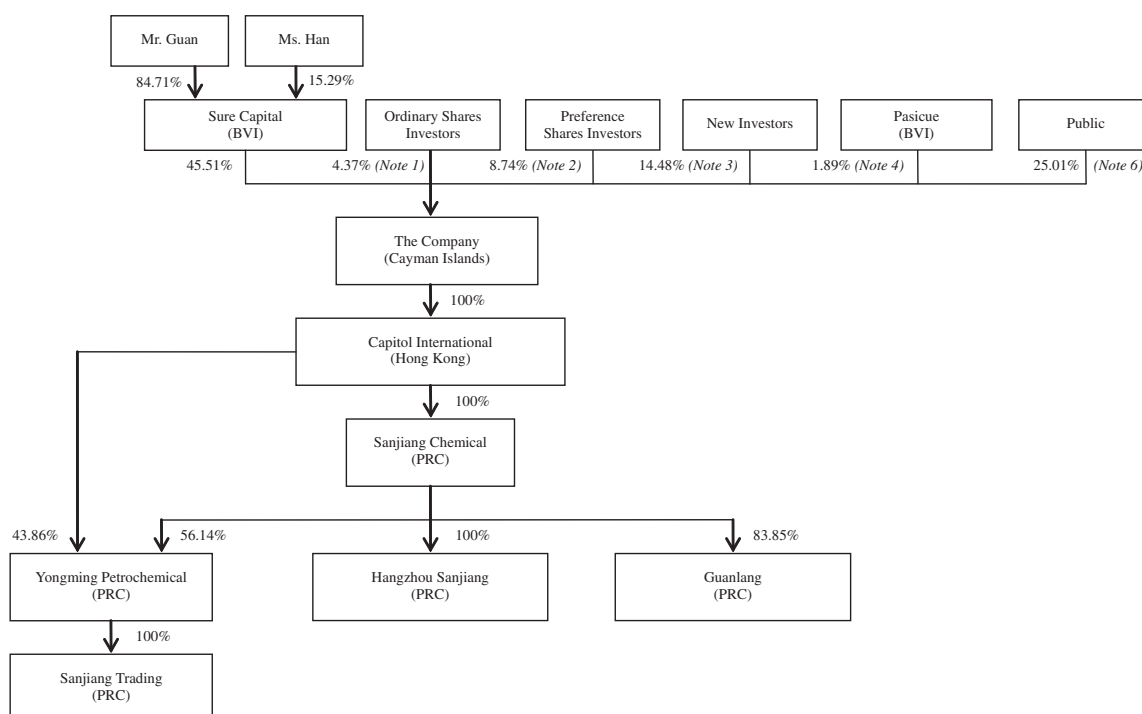
*Notes:*

- (1) These 9,000 Shares will be held as to 1,050 Shares by CITIC International Assets Management Limited (中信國際資產管理有限公司), 2,700 Shares by Creation One International Limited (創一國際有限公司), 2,069 Shares by Chemwin Limited, 600 Shares by Rich Honour Holdings Limited (諾信控股有限公司) and 2,581 Shares by BOCOM Holdings, representing approximately 0.68%, 1.75%, 1.34%, 0.39% and 1.67% of the issued share capital of our Company immediately before completion of the Global Offering and the Capitalisation Issue.
- (2) These 18,000 Shares will be held as to 6,419 Shares by BOCOM Holdings, 4,141 Shares by Chemwin Limited, 3,600 Shares by UVM Venture Investments Limited, 2,100 Shares by CITIC International Assets Management Limited (中信國際資產管理有限公司), 1,200 Shares by Rich Honour Holdings Limited (諾信控股有限公司), and 540 Shares by Central Harvest Holdings Company Limited (滙盛控股有限公司), representing approximately 4.16%, 2.68%, 2.33%, 1.36%, 0.78%, and 0.35% of the issued share capital of our Company immediately before completion of the Global Offering and the Capitalisation Issue.

## HISTORY AND REORGANISATION

- (3) These 29,832 Shares will be held as to (1) 1,320 Shares by Global Fortune Muster Investment Ltd. (祥聚投資有限公司); (2) 1,320 Shares by Hanbest Investment Limited (凱佳投資有限公司); (3) 3,960 Shares by Strength High Group Limited; (4) 4,884 Shares by Million Wisdom International Limited (萬聰國際有限公司); (5) 6,336 Shares by Ever Raise International Limited (常展國際有限公司); (6) 6,072 Shares by Gold Dynamic Asia Limited (金動力亞洲有限公司); and (7) 5,940 Shares by Supra Grade Holdings Limited (越級控股有限公司), representing approximately 0.85%, 0.85%, 2.56%, 3.16%, 4.10%, 3.93% and 3.85% of the issued share capital of our Company immediately before completion of the Global Offering and the Capitalisation Issue.
- (4) These 3,888 Shares will be held by Pasicue.
- (5) The remaining 16.15% shareholding interest in Guanlang is held by Zhapu Construction.

The following chart sets forth our corporate and shareholding structure immediately following completion of the Global Offering and the Capitalisation Issue, taking no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme:



### Notes:

- (1) These 44,100,000 Shares will be held as to 5,145,000 Shares by CITIC International Assets Management Limited (中信國際資產管理有限公司), 13,230,000 Shares by Creation One International Limited (創一國際有限公司), 10,138,100 Shares by Chemwin Limited, 2,940,000 Shares by Rich Honour Holdings Limited (諾信控股有限公司) and 12,646,900 Shares by BOCOM Holdings, representing approximately 0.51%, 1.31%, 1.00%, 0.29% and 1.25% of the issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue (and taking no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme).

## HISTORY AND REORGANISATION

- (2) These 88,200,000 Shares will be held as to 31,453,100 Shares by BOCOM Holdings, 20,290,900 Shares by Chemwin Limited, 10,290,000 Shares by CITIC International Assets Management Limited (中信國際資產管理有限公司), 5,880,000 Shares by Rich Honour Holdings Limited (諾信控股有限公司), 17,640,000 Shares by UVM Venture Investments Limited and 2,646,000 Shares by Central Harvest Holdings Company Limited (滙盛控股有限公司), representing approximately 3.12%, 2.01%, 1.02%, 0.58%, 1.75% and 0.26% of the issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue (and taking no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme).
- (3) These 146,176,800 Shares will be held as to (1) 6,468,000 Shares by Global Fortune Muster Investment Ltd. (祥聚投資有限公司); (2) 6,468,000 Shares by Hanbest Investment Limited (凱佳投資有限公司); (3) 19,404,000 Shares by Strength High Group Limited; (4) 23,931,600 Shares by Million Wisdom International Limited (萬聰國際有限公司); (5) 31,046,400 Shares by Ever Raise International Limited (常展國際有限公司); (6) 29,752,800 Shares by Gold Dynamic Asia Limited (金動力亞洲有限公司); and (7) 29,106,000 Shares by Supra Grade Holdings Limited (越級控股有限公司), representing approximately 0.64%, 0.64%, 1.92%, 2.37%, 3.08%, 2.95% and 2.88% of the issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue (and taking no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme).
- (4) These 19,051,200 Shares will be held by Pasicue.
- (5) The remaining 16.15% shareholding interest in Guanlang is held by Zhapu Construction.
- (6) Public Shareholders other than the Ordinary Shares Investors, Preference Shares Investors, New Investors and Pasicue.

### M&A Rules

According to the Rules on the Acquisition of Domestic Enterprises by Foreign Investors (the “M&A Rules”) (《關於外國投資者併購境內企業的規定》), which were promulgated by the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission, the CSRC, the State Administration of Taxation, the State Administration for Industry and Commerce and the SAFE and became effective on 8 September 2006, where a domestic natural person intends to takeover his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of the Ministry of Commerce; and where a domestic natural person holds equity interest in a domestic company through an offshore special purpose company, any transaction involving the overseas listing of that special purpose company shall be subject to approval by the CSRC. Our PRC Legal Advisers have advised that the M&A Rules are not applicable to our Listing and it is not necessary for us to obtain approval from the CSRC and the Ministry of Commerce because the foreign invested enterprises involved in the Listing, namely Sanjiang Chemical and Yongming Petrochemical were set up as sino-foreign equity joint ventures before 8 September 2006.

Our Directors are of the view that, based on the advice of our PRC Legal Advisers, the M&A Rules are not applicable to our Listing and it is not necessary for us to obtain approval from the CSRC and the Ministry of Commerce.

### Circular 75

According to the Notice of SAFE on Relevant Issues Relating to Foreign Exchange Control on Financing and Round-trip Investments by Domestic Residents Through Offshore Special Purpose Vehicles (the “Circular 75”) (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) promulgated by the SAFE on 21 October 2005 and effective on 1 November

## **HISTORY AND REORGANISATION**

2005, domestic residents establishing or taking control of a special purpose company abroad and domestic enterprises receiving round-trip investments from funds raised by an offshore special purpose company controlled by domestic residents are required to effect foreign exchange registration with the local foreign exchange bureau.

Our PRC Legal Advisers have advised that Circular 75 applies to our Listing as our ultimate controlling shareholder, Mr. Guan, is a domestic resident. In accordance with Circular 75, Mr. Guan completed all formalities for the registration and filing of an overseas investment by a PRC resident with SAFE in respect of his offshore investment, financing and round-trip investment in 2008. As at the Latest Practicable Date, the revision of the aforesaid registration and filing has been filed and our PRC Legal Advisers have advised that there should not be any legal obstacle for Mr. Guan to complete the formalities required under Circular 75.

## OVERVIEW

We are a manufacturer and supplier of consumer chemicals and their ingredients, namely ethylene oxide and AEO surfactants which are the core components for household cleansing and cosmetic products. According to the SAI Report, we were the third largest manufacturer and the largest privately-owned manufacturer of ethylene oxide in China in terms of production volume for the three years ended 31 December 2009. We are also the second largest manufacturer and the largest privately-owned manufacturer of AEO surfactants in China in terms of production volume in 2009. Ethylene oxide is an ethylene derivative product and is mainly used for production of surfactants, ethylene glycol, ethanolamines and glycol ethers in China. Our AEO surfactants are mainly used in the manufacture of household cleansing agents such as liquid detergents, cosmetics and ointments products.

In addition to ethylene oxide and AEO surfactants, we also manufacture and supply other types of surfactants products. We also engage in the provision of ethylene oxide and surfactants processing services to our customers as well as the production and supply of other chemical products such as ethylene glycol and industrial gases, namely oxygen, nitrogen and argon.

According to the SAI Report, in terms of market share by production volume, our share in China's ethylene oxide market was approximately 11% in both 2007 and 2008 and increased to approximately 19% in 2009; while our share in China's AEO surfactants market increased from approximately 7% in both 2007 and 2008 to approximately 13% in 2009. Our aggregate designed annual production capacities of ethylene oxide and surfactants were approximately 120,000 MT and 218,000 MT respectively as of the Latest Practicable Date.

We are able to secure a steady and reliable supply of raw materials due to our vertically integrated production process and our established relationship with our suppliers since 2007. For the manufacture of surfactants, we manufacture all the ethylene oxide, the principal raw material for our surfactant production, in-house, and do not have to source ethylene oxide from external suppliers. During the Track Record Period, approximately 1,426 MT, 2,982 MT, 15,274 MT and 4,033 MT of ethylene oxide manufactured by us were utilised for processing into surfactants (excluding surfactant processing services), representing approximately 2.2%, 4.4%, 10.9% and 8.2% of our total production volume of ethylene oxide respectively. The said ethylene oxide manufactured for self-consumption, based on production costs, amounted to approximately RMB13.4 million, RMB28.7 million, RMB91.1 million and RMB33.3 million respectively during the Track Record Period. For the manufacture of ethylene oxide, we source ethylene, the principal raw material for production, from reputable companies in Japan, with whom we have established good business relationship since 2007. In addition, our ethylene storage tank provides a buffer for us to absorb short term price fluctuation of ethylene. Our imported ethylene is stored in our ethylene storage tank which has a storage capacity of approximately 22,000 cubic metres or effectively 12,075 MT of ethylene. Such ethylene storage tank was the largest in China in terms of storage capacity as of 30 April 2010 according to the SAI Report.

We believe that, given the strict requirements on establishment of new ethylene oxide manufacturing facilities and manufacture of ethylene oxide under the PRC laws and regulations, in particular, the requirements on new entrants to the ethylene oxide manufacturing industry, the entry barrier for the ethylene oxide manufacturing industry is high and that potential competitions from new entrants are limited.

We have been generating most of our revenue from the sales of ethylene oxide and surfactants. During the Track Record Period, our revenue was approximately RMB876.8 million, RMB952.8 million, RMB1,285.5 million and RMB567.5 million respectively, and our net profit attributable to equity holders of the parent was approximately RMB147.4 million, RMB139.1 million, RMB242.1 million and RMB78.7 million respectively. Between 2007 and 2009, the net profit attributable to equity holders of the parent grew at a CAGR of approximately 28.2%. During the same period, we saw continued growth in both our ethylene oxide and surfactant businesses, in particular our surfactant business, where revenue contribution had increased both in absolute amount and as percentage of total revenue. Sale of ethylene oxide as a percentage of our total revenue gradually decreased from approximately 90.7% in 2007 to approximately 87.0% in 2008 and then to approximately 72.0% in 2009 as our Group began to develop our surfactant business. Sales of surfactants as a percentage of our total revenue gradually increased from approximately 3.5% in 2007 to approximately 4.9% in 2008 and then to approximately 16.8% in 2009. For the four months ended 30 April 2010, sales of ethylene oxide as a percentage of our total revenue increased to approximately 83.2% while sales of surfactants as a percentage of our total revenue decreased to approximately 11.1% as we increased our sales of ethylene oxide and allocated more self-manufactured ethylene oxide to provide surfactants processing services.

## **OUR COMPETITIVE STRENGTHS**

Our Directors attribute our success to the following competitive strengths:

### **We have maintained a leading market position and have been benefiting from the rapid market growth**

According to the SAI Report, we were the third largest manufacturer and the largest privately-owned manufacturer of ethylene oxide in China in terms of production volume for the three years ended 31 December 2009. We are also the second largest manufacturer and the largest privately-owned manufacturer of AEO surfactants in China in terms of production volume in 2009. Our aggregate designed annual production capacities of ethylene oxide and surfactants were approximately 120,000 MT and 218,000 MT respectively as of the Latest Practicable Date. Our Directors anticipate that our existing aggregate designed annual production capacity of ethylene oxide will increase to approximately 180,000 MT by early 2011 following the completion of the third phase construction of production facilities of 60,000 MT at our Jiaying Production Plant. According to the SAI Report, since 2007, we have been increasing our lead in market share in the sales of both ethylene oxide and surfactants. Our Directors believe that our leading market position provides us with advantages with regard to product pricing and customer selection. Our large-scale operation also allows us to achieve significant economies of scale with regard to production and procurement. According to the SAI Report, the demand for ethylene oxide in China will experience growth at a CAGR of 17% from 2009 to 2014, reaching 1,564,017 MT in volume or a total value of US\$2,813.6 million by 2014 and the demand for AEO surfactants in China will experience growth at a CAGR of 5% from 2009 to 2014, reaching 529,500 MT in volume or a total value of US\$1,077.6 million by 2014. Our Directors believe that there will be an increasing demand for downstream products of surfactants such as household detergent and cosmetic products due to increasing disposable income, general improvement in living standards and economic conditions in China, which will in turn lead to increasing demand for surfactants, the principal raw materials of such downstream products. Our Directors believe that, given our large scale operation and production capacity, we are well positioned to capture such demand growth.

**We manage to increase our profitability through vertical integration and optimisation of our product mix**

Ethylene oxide is an ethylene derivative product which is mainly used for the production of surfactants in China. As we possess both ethylene oxide and surfactant production lines, and that we are capable of manufacturing both ethylene oxide and surfactants, our Directors believe that we have an effective vertically integrated production process, which enables us to respond to the changes in market condition in terms of product pricing and customers' demand in a timely manner by resiliently switching between selling ethylene oxide to our customers and utilising the ethylene oxide manufactured by us to manufacture surfactants. By manufacturing and delivering ethylene oxide, surfactants or mix of both, we can effectively optimise our overall profitability. We also offer a wide range of surfactant products to our customers. We produce over 100 types of surfactants according to the requirement of our customers and believe that we are able to switch to produce between different types of surfactant without much lag time.

**The strategic location of our production base allows convenient transportation of our raw materials and products at low transportation costs**

Our Jiaxing Production Plant is strategically located in the Zhapu Development Zone of Jiaxing, Zhejiang Province, and is in close proximity to the Port of Zhapu which is a national first class open port for international trade. The Port of Zhapu is connected to the East China Sea, which links Japan and Korea; and is connected to Jing-Hang Canal, which links Beijing and Hangzhou. The strategic location of our production base allows convenient transportation of our raw materials and products by vessel or tankers, which may lower our transportation costs.

Taking advantage of such strategic location, we have installed an ethylene storage tank with a total storage capacity of approximately 22,000 cubic metres on a parcel of land we own adjacent to the Port of Zhapu. Ethylene, our principal raw material for production of ethylene oxide, is transported by sea to the Port of Zhapu and stored in our ethylene storage tank. Ethylene is then transported to our Jiaxing Production Plant through our own pipelines to ensure safe transportation of ethylene.

**We are able to secure stable and reliable supply of raw materials to ensure stable production by our Group**

A stable and reliable supply of raw materials is, in the opinion of our Directors, imperative to our production. For the manufacture of surfactants, we manufacture all the ethylene oxide, the principal raw material for our production, in house, and do not have to source ethylene oxide from external suppliers. For the manufacture of ethylene oxide, we source ethylene, the principal raw material for production, from reputable companies from Japan, with whom we have established good business relationship since 2007. We enter into contracts with most of our suppliers on a yearly basis to fix the quantity of ethylene to be supplied to us in that year. During the Track Record Period, we did not experience any shortage of supply of raw materials.

Our ethylene storage tank located in the Port of Zhapu is the largest in China in terms of storage capacity according to the SAI Report. With a total storage capacity of approximately 22,000 cubic metres as of 30 April 2010, the tank can effectively store 12,075 MT of ethylene which we import. Ethylene is transported from our ethylene storage tank to our Jiaxing Production Plant which is in close proximity to the Port of Zhapu through our own pipelines. Our large storage tank can ensure a safe storage and stable supply of ethylene which is essential to our production of ethylene oxide. In addition, our ethylene

storage tank enables us to absorb short term price fluctuation of ethylene with an aim to have better cost control. The close proximity of our storage tank to our Jiaxing Production Plant has a definite geographical advantage in ensuring safe transportation of ethylene to our production plant. Please refer to the subsection headed “Production capacities, production plant and storage facility – Ethylene storage facility” in this section for further details on our ethylene storage facility.

**High entry barrier to the ethylene oxide manufacturing industry thereby limiting competition from new entrants**

According to the Industrial Restructuring Catalogue and the Land Catalogue, ethylene oxide construction projects with an annual capacity of less than 200,000 MT are expressly banned by the PRC government. According to the Production Licence Notice, the National Production Licence for Industrial Products, which is a requisite licence for the production of ethylene oxide in the PRC, shall not be issued to ethylene oxide production enterprises with an annual production capacity of less than 200,000 MT. Please refer to the section headed “Laws and regulations in relation to establishment of ethylene oxide manufacturing facilities” as set out in Appendix V to this prospectus for further details on the requirements of the aforementioned regulations.

In light of the above, new entrants to the industry is barred unless their ethylene oxide construction project reaches an annual capacity of 200,000 MT or more and the National Production Licence for Industrial Products is obtained. Our Directors believe that the relatively large initial capital investment provides a high entry barrier for the industry in particular for non-state owned entrants. According to the SAI Report, it is anticipated that save for Sanjiang Honam, which is the sino-foreign joint venture company jointly established by Honam Petrochemical Corp. and us and which will enter into the market by the end of 2011, no new commercial producers will enter into the market until 2013.

Given the aforesaid high entry barrier and our leading position in the industry, our Directors consider that we are well-positioned to capture the growth of this industry with limited competition from new entrants.

**We maintain a strong relationship with quality customers**

We seek to establish a quality customer base. In particular, we target customers with strong financial conditions and corporate reputation, positive corporate image and favourable competitive advantages in their respective markets as we believe that quality customers in general have good credit record and usually place sizeable orders. We believe that by establishing business relationships with quality customers, we are able to mitigate credit risk and obtain steady order flow, as well as enhance the goodwill of our Company, which could in turn create further opportunities with other prestigious customers. To date, we have successfully secured business from a number of customers which are renowned companies in their respective industries such as the industrial and household sectors. Our top ten ethylene oxide customers included 嘉興金燕化工有限公司 (Jiaxing Jinyan Chemical Co., Ltd\*) and 江蘇銀燕化工股份有限公司 (Jiangsu Yinyan Speciality Chemicals Co., Ltd.\*) during the Track Record Period. 嘉興金燕化工有限公司 (Jiaxing Jinyan Chemical Co., Ltd.\*) was one of our overall top ten customers for the two years ended 31 December 2009 and the four months ended 30 April 2010. 江蘇銀燕化工股份有限公司 (Jiangsu Yinyan Speciality Chemicals Co., Ltd.\*) was one of our overall top ten customers for the two years ended 31 December 2008. Our top ten surfactants customers included 納愛斯集團有限公司 (Nice Group Co., Ltd\*), 麗水市雕牌化工有限公司 (Lishui City Diao Brand Chemical Co., Ltd.\*) and 浙江傳化股份有限公司 (Zhejiang Transfar Co., Ltd.\*) during the Track Record Period. Please refer to the subsection headed “Sales and marketing – Customers” in this section for further details on our customer base.

We believe that with our dedication to provide products of the highest quality, together with our reliability and safety record, we have been successful in winning new customers, as well as maintaining and building entrenched relationships with existing customers. In particular, given the size of our operations and our on-going commitment to excel in our productions and services, we believe we have managed to build a high level of customer satisfaction and loyalty in our existing customers. As evident from the success we have enjoyed to date in building a well diversified customer base, we believe we are in a good position to attract further business interests, which should allow us to further expand our customer base.

### **We have an experienced and dedicated management team**

We have a strong management team with substantial experience in the production, sales and marketing of our products. Our senior management team is headed by our founder, Mr. Guan who has over 25 years of experience and knowledge in the petrochemical industry. In addition, most of the senior members of our management team have over 15 years of experience and have served at various companies in the petrochemical and related industries, their experience and knowledge of the industry contribute to the effectiveness and success of our operation. Under Mr. Guan's leadership, we have successfully established ourselves as the largest privately-owned manufacturer of ethylene oxide and AEO surfactants in China. Our Directors believe that the experience and dedication of our management team have contributed substantially to our business growth during the Track Record Period. Our Directors also believe that such experience and dedication will underpin our business revenue for expansion in the future.

### **OUR STRATEGIES**

We aim to maintain and further strengthen our position as the largest privately-owned manufacturer and supplier of ethylene oxide and AEO surfactants in China and to expand our business with an aim to maximise shareholders' value by pursuing the following strategies:

#### **Strengthen our leading market position in China through expansion of our production capacity**

We intend to strengthen our leading market position in China through expanding our ethylene oxide production capacity in phases. As part of our expansion plan, in December 2009, we commenced the third phase construction of ethylene oxide production facilities at our Jiaying Production Plant. We anticipate that upon completion of the third phase construction, our designed annual production capacity of ethylene oxide will increase from approximately 120,000 MT in 2009 to an aggregate designed production capacity of approximately 180,000 MT by early 2011, representing a CAGR of 22.5%. It is projected in the SAI Report that the total production volume of ethylene oxide in the PRC will increase at a CAGR of 10.4% from approximately 725,515 MT in 2009 to 884,000 MT in 2011. Further, we will commence our fourth phase construction of ethylene oxide production facilities with a designed annual production capacity of 100,000 MT following the commencement of the third phase production of ethylene oxide. We anticipate that upon completion of the fourth phase construction, our designed annual production capacity of ethylene oxide will increase from 180,000 MT in 2011 to 280,000 MT by early 2013, representing a CAGR of 24.7%. According to the SAI Report, the total production volume of ethylene oxide in the PRC will increase at a CAGR of 20.5% from approximately 884,000 MT in 2011 to 1,284,000 MT in 2013.

We anticipate that Sanjiang Honam, the sino-foreign joint venture company jointly established and controlled by Honam Petrochemical Corp. and us, will commence the first phase construction of ethylene oxide production facilities with a designed annual production capacity of 100,000 MT at the end of 2010. We expect completion of the construction will take place by the end of 2011. We anticipate that the second phase construction of ethylene oxide production facilities with a designed annual production capacity of 100,000 MT will commence following the commencement of the first phase production of ethylene oxide.

In April 2009, the second phase construction of surfactant production facilities with a designed annual production capacity of 100,000 MT commenced at our Jiaying Production Plant. Such production facilities commenced production in August 2010, thereby our designed annual production capacity of surfactants increased from approximately 118,000 MT in aggregate to approximately 218,000 MT.

According to the SAI Report, the demand for ethylene oxide in China will experience growth at a CAGR of 17% from 2009 to 2014, reaching 1,564,017 MT in volume or a total value of US\$2,813.6 million by 2014 and the demand for AEO surfactants in China will experience growth at a CAGR of 5% from 2009 to 2014, reaching 529,500 MT in volume or a total value of US\$1,077.6 million by 2014. Our Directors believe that there will be an increasing demand for downstream products of surfactants such as household detergent and cosmetic products due to increasing disposable income, general improvement in living standards and economic conditions in China, which will in turn lead to a direct increase in demand for surfactants and an indirect increase in demand for ethylene oxide, the principal raw material of such downstream products. We believe that, with the abovementioned increase in our production capacity, we are well positioned to capture such demand growth.

### **Expand our product coverage and functionality, improve our product quality and further maximise our profitability**

In view of the rising market demand for variety and functionality of downstream products of surfactants and with an objective to maximise our long-term profitability, we intend to expand our product coverage by developing new types of surfactants and improve the quality of our existing products and production technologies through our research and development team and potential collaboration and/or cooperation with universities in the PRC. In particular, we plan to expand our range of surfactant products to include surfactant products which require more sophisticated and customised production process with higher profit margins so as to maximise our profitability. We will continue to assess and effectively respond to the changes in market condition in terms of product pricing and customers' demand by resiliently switching between selling ethylene oxide to our customers and utilising the ethylene oxide manufactured by us to manufacture surfactants in order to maximise our profitability.

### **Selectively seek acquisition opportunities**

We may consider selective acquisitions of existing surfactant manufacturing or related businesses to further strengthen our leading market position in China. We may also consider selective acquisitions of businesses of the downstream market. We are currently at the initial stage of negotiation with several companies to explore acquisition opportunities. We have not entered into any definitive agreement, letter of intent or framework agreement with these companies.

## BUSINESS

### Improve production efficiency and reduce production costs

We will continue to improve our production efficiency by enhancing our production process technologies. To date, we have engaged international technology providers, namely Scientific Design Company, Inc. and Sulzer Ltd., to enhance our production know-how and upgrade our machinery and equipment. Together with the anticipated economies of scale via increase in our production capacity, we will continue our efforts to lower production costs by improving our efficiency in the utilisation of raw materials, energy and utilities during our production process.

### Increase raw material storage capacity by constructing new ethylene storage tank to accommodate increasing production capacity

In order to accommodate our increasing ethylene oxide production capacity, 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 in the second quarter of 2010. We anticipate the construction will be completed by the second quarter of 2011.

## PRODUCTS AND SERVICES

We are a manufacturer and supplier of consumer chemicals and their ingredients, namely ethylene oxide and AEO surfactants. In addition to ethylene oxide and AEO surfactants, we also manufacture and supply other types of surfactants products. We also engage in the provision of ethylene oxide and surfactant processing services to our customers as well as the production and supply of ethylene glycol and industrial gases, namely oxygen, nitrogen and argon.

The following is a breakdown of our revenue for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2009 and 2010:

	Year ended 31 December						Four months ended 30 April			
	2007		2008		2009		2009		2010	
	RMB		RMB		RMB		RMB		RMB	
	million	%	million	%	million	%	million	%	million	%
	(unaudited)									
Sales of ethylene oxide	795.2	90.7	829.3	87.0	925.1	72.0	231.7	62.9	472.0	83.2
Sales of surfactants	30.9	3.5	46.8	4.9	216.6	16.8	67.1	18.2	63.1	11.1
Processing services	3.4	0.4	9.7	1.0	66.4	5.2	54.2	14.7	5.2	0.9
Others <sup>(Note)</sup>	47.3	5.4	67.0	7.1	77.4	6.0	15.4	4.2	27.2	4.8
Total	<u>876.8</u>	<u>100.0</u>	<u>952.8</u>	<u>100.0</u>	<u>1,285.5</u>	<u>100.0</u>	<u>368.4</u>	<u>100.0</u>	<u>567.5</u>	<u>100.0</u>

*Note:* Others mainly comprised of sales from ethylene glycol, ethylene, nitrogen, oxygen and argon.

## **Our products**

Our main products are ethylene oxide and surfactants. Other products include ethylene glycol and industrial gases, namely oxygen, nitrogen and argon.

The following is a brief description of our main products:

### **A. *Ethylene oxide***

Ethylene oxide is an ethylene derivative product and is mainly used for production of surfactants, ethylene glycol, ethanolamines and glycol ethers in China. Ethylene oxide is produced by the oxidation of ethylene with pure oxygen. Ethylene oxide is a highly reactive, colourless, transparent, low-boiling point liquid or gas at room temperature. It is inflammable and explosive and not suitable for long distance transportation.

We commenced our production of ethylene oxide in January 2006 at our Jiaying Production Plant. During the Track Record Period, revenue derived from the sales of ethylene oxide amounted to approximately RMB795.2 million, RMB829.3 million, RMB925.1 million and RMB472.0 million respectively, representing approximately 90.7%, 87.0%, 72.0% and 83.2% of our total revenue of the respective periods. During the Track Record Period, our production volume of ethylene oxide, including the volume of ethylene oxide processed by us, was approximately 65,906 MT, 67,780 MT, 140,515 MT and 49,006 MT respectively. As of the Latest Practicable Date, our aggregate designed annual production capacity of ethylene oxide was approximately 120,000 MT.

#### *Description of ethylene oxide*

Product category : ethylene derivative products

Raw materials : ethylene, oxygen

Formula :  $C_2H_4O$

Synonyms : oxirane, epoxyethane

CAS number : 75-21-8

Characteristics : highly reactive, colourless, transparent, low-boiling point liquid or gas at room temperature with an ether-like odour

#### Scope of applications

Ethylene oxide is an ethylene derivative product and is used to produce surfactants, ethylene glycol, ethanolamines and glycol ethers in China. The downstream sectors of such ethylene derivative products cover various household and industrial products including antifreeze agent, synthetic detergent, emulsifier, non-ionic surfactants, plasticiser, lubricant, adhesive, rubber and synthetic resin.

**B. Surfactants**

Surfactants are major downstream products of ethylene oxide and are complex substances containing phospholipids and a number of apoproteins. Surfactants are wetting agents that lower the surface tension of a liquid, allowing easier spreading, and lower the interfacial tension between two liquids. Surfactants are widely applied in different industries as scouring agent, moisturising agent, emulsifier and solubiliser. Surfactants are also used for production of household cleansing agent, cosmetics and ointments products.

We are able to manufacture over 100 different types of surfactants with various application purposes. Fatty alcohol polyoxyethylene ether (AEO) surfactants, a type of non-ionic surfactants, are our main surfactant product. Our sales volume of AEO surfactants, including the volume of AEO surfactants processed by us, accounted for approximately 75.5%, 78.2%, 76.0% and 78.4% of our total surfactant production and processing volume for the three years ended 31 December 2009 and the four months ended 30 April 2010, respectively. Our AEO surfactants are mainly used in the manufacture of household cleansing agents such as liquid detergents, cosmetics and ointments products.

Hangzhou Haoming commenced the manufacture of surfactants in May 1998. We acquired, among other things, the ethylene oxide trading and surfactant manufacture and sale businesses of Hangzhou Haoming in April 2010. As Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han, the results of the business acquired from Hangzhou Haoming had been reflected in our Group's results prior to 31 March 2010 by using merger accounting. Our Jiaxing Production Plant commenced manufacture of surfactants in February 2008. During the Track Record Period, revenue derived from the sales of surfactants amounted to approximately RMB30.9 million, RMB46.8 million, RMB216.6 million and RMB63.1 million respectively, representing approximately 3.5%, 4.9%, 16.8% and 11.1% of our total revenue for the respective periods. During the Track Record Period, our production and processing volume of surfactants amounted to approximately 10,922 MT, 19,815 MT, 52,687 MT and 18,681 MT respectively. As of the Latest Practicable Date, our aggregate designed annual production capacity of surfactants was approximately 218,000 MT.

*AEO surfactants*

In general, AEO surfactants take the form of either colourless liquid or milky paste and can be used as an emulsifier for mineral oil, aliphatic solvents and other substances, or a solubiliser for essential oils and moisturising agent etc. Further, AEO surfactants are important ingredients for producing downstream products such as AES, liquid detergents, cosmetics and ointments products.

Currently, we focus on the production of AEO-2, AEO-3, AEO-5, AEO-7 and AEO-9 surfactants.

*Description of AEO surfactants*

Raw materials : fatty alcohol and ethylene oxide

Formula :  $C_{12-14}H_{25-29}O(CH_2CH_2O)_nH$

CAS number : 9002-92-0

The following table sets forth the characteristics and scope of applications of our major AEO surfactants:

<b>AEO surfactants</b>	<b>Characteristics</b>	<b>Scope of applications</b>
AEO-2	colourless liquid, highly soluble in oil and polar solvents, possessing good emulsifying properties	emulsifying mineral oil and aliphatic solvents and producing synthetic oils
AEO-3	colourless liquid, highly soluble in oil and polar solvents, possessing good emulsifying properties	emulsifying mineral oil and aliphatic solvents and producing synthetic oils, being primary ingredients for producing AES
AEO-5	colourless liquid, highly soluble in oil and polar solvents, possessing good emulsifying properties	emulsifying mineral oil and aliphatic solvents and producing synthetic oils
AEO-7	milky paste, highly soluble in water and possessing of excellent emulsifying, purifying and moisturising properties	acting as wool detergents and degreasing agents in the wool industry, scouring agents for fabrics and detergents; being an important component of liquid detergents and emulsifiers in the production of cosmetics and ointments
AEO-9	milky paste, highly soluble in water and possessing excellent emulsifying, purifying and moisturising properties	acting as wool detergents and degreasing agents in the wool industry, scouring agents for fabrics and detergents; being an important component of liquid detergents and emulsifiers in the production of cosmetics and ointments

*Other surfactant products*

Our other surfactant products include nonylphenol polyoxyethylene ether (TX) surfactants, polyethylene glycol (PEG), emulsifier OP, softener SG series auxiliary agent and diglycerol.

**Our other products**

Our other products mainly include ethylene glycol and industrial gases, namely oxygen, nitrogen and argon.

Ethylene glycol is produced as one of the side-products during the production process of ethylene oxide. It is subsequently extracted and sold to our customers.

Our air separation plant separates oxygen, argon and nitrogen from air. Some of the nitrogen extracted is used as stabilising gas in the production of ethylene oxide and surfactants, whilst the unused nitrogen is sold to our customers. Oxygen and argon extracted are also sold to our customers in liquid state.

**Our processing services**

We provide ethylene oxide and surfactants processing services to our customers.

Ethylene is provided by our customer and delivered to our Sanjiang Production Plants for processing into ethylene oxide.

Raw materials such as fatty alcohol are provided by our customers and delivered to our Sanjiang Production Plants for processing into surfactants after undergoing the reaction with the ethylene oxide which we manufactured.

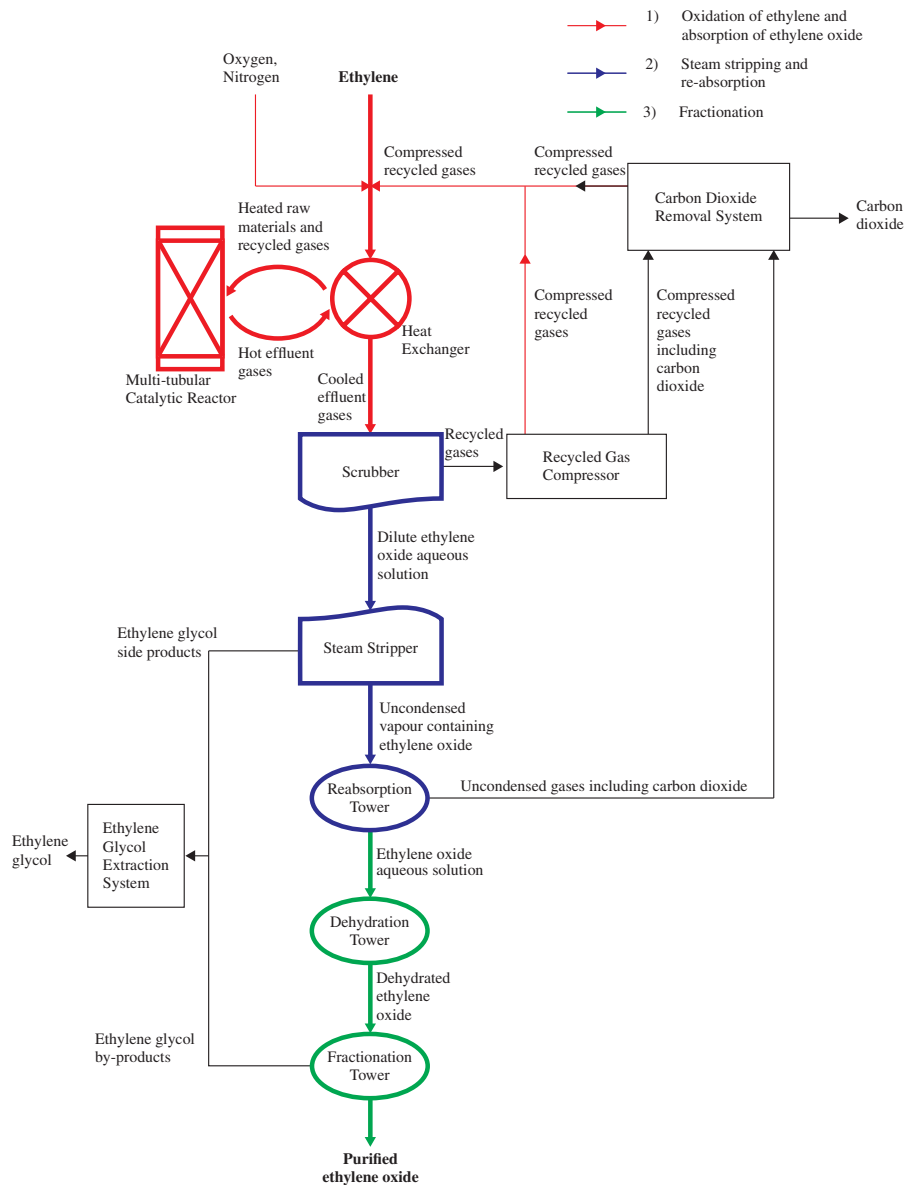
## OUR PRODUCTION

Our sales, procurement and production departments work closely together to manage our production planning. We prepare production plans (in particular, at the beginning of each year for production of ethylene oxide), according to market demand and historical sales and production records, adjusted to take into account orders on hand at the time, production capacity and current inventory levels, as well as maintenance and repair needs from production facilities.

### Our production process

#### A. *Ethylene oxide*

The production process of ethylene oxide is illustrated as follows:



Ethylene oxide is produced by the oxidation of ethylene when ethylene and oxygen react with a catalyst while in their respective vapour phases. The production process of ethylene oxide is primarily divided into three stages which are described below:

*(1) Oxidation of ethylene and absorption of ethylene oxide*

Pre-heated ethylene, oxygen and recycled gases are mixed and fed into a multi-tubular catalytic reactor. Nitrogen is added to maintain the balance of and stabilise the gas mixture. The reactor is then heated by high pressure steam to control the reaction temperature. Ethylene and oxygen will then undergo oxidation reaction in the reactor. A small amount of dichloroethane inhibitor is added to optimise the oxidation reaction and restrain side reactions. As a result of the oxidation reaction, low purity ethylene oxide and other side products, including carbon dioxide, water and a small amount of hydrocarbons are produced.

The resultant effluent gases from the reactor which contain, among others, ethylene oxide, are cooled and compressed. The cooling is accomplished by cross exchanging the reactor effluent with the recycled gases. The cooled reactor effluent is then passed to a scrubber where ethylene oxide is absorbed as a dilute aqueous solution. Recycled gases are compressed and returned to the reactor with a portion drawn off and diverted through a carbon dioxide removal system.

*(2) Steam stripping and re-absorption*

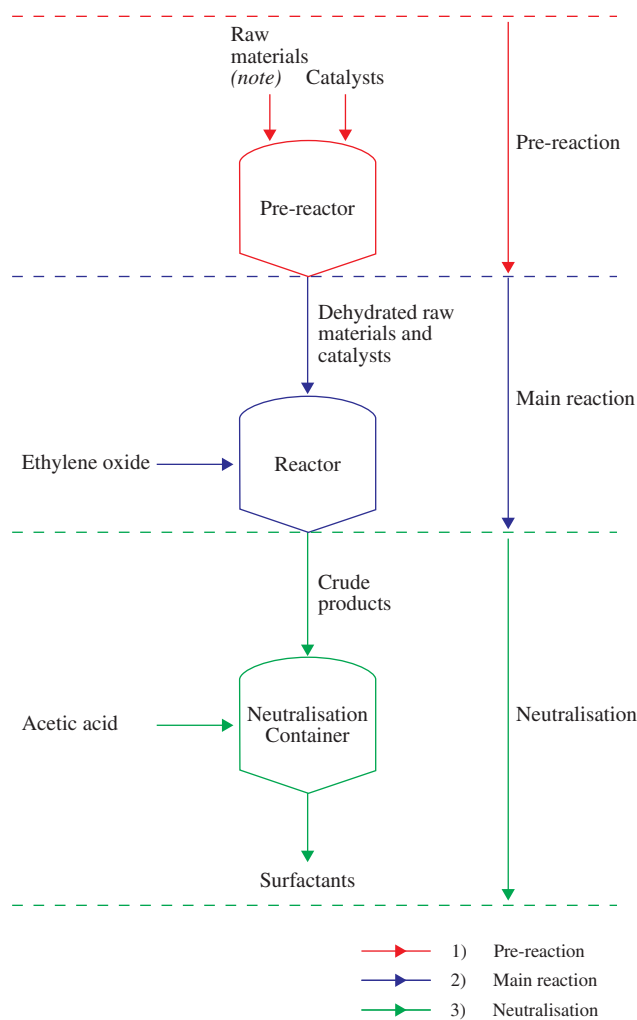
Ethylene oxide in aqueous form is decompressed and then steam stripped. The overhead vapour from the stripper is then cooled to condense out most of the water. The uncondensed vapour from the stripper is reabsorbed in recycled water at the re-absorption tower filled with polypropylene pall rings. Through this process, ethylene oxide of higher purity can be extracted. At the same time, impurities including carbon dioxide, oxygen, nitrogen and argon are also extracted. Further, ethylene glycol is produced as one of the side products.

*(3) Fractionation*

Ethylene oxide produced in the re-absorption tower as a result of the above step (2) is pre-heated and transmitted to the dehydration and fractionation tower, in which ethylene oxide is purified by fractionation until its purity reaches 99.99%. Ethylene oxide is then cooled and stored in spherical containers and transported through product pumps.

**B. Surfactants**

The production process of surfactants is illustrated below:



*Note:* Raw materials for production of surfactants vary depending on the type of surfactant to be manufactured.

The production process of surfactants is primarily divided into three stages which are described as follows:

**(1) Pre-reaction**

Raw materials, such as fatty alcohol, nonylphenol and catalysts, are added into the pre-reactor for vacuum dehydration.

**(2) Main reaction**

Dehydrated raw materials and catalysts are added into a nitrogen-filled reactor. Subsequently, ethylene oxide is added into the reactor to initiate chemical reaction.

(3) *Neutralisation*

The crude product from the above step (2) is added into a neutralisation container for mixing and stirring. Subsequently, nitrogen is added to the container and vacuum dehydration is initiated for the purpose of filtering any residual and unreacted ethylene oxide. Finally, acetic acid is added to begin the neutralisation process. Neutralised products are cooled and transported for storage by the discharging pump.

**C. Our processing services**

Our ethylene oxide processing services in terms of production process are identical to that of our ethylene oxide production process.

Our surfactants processing services in terms of production process are identical to that of our surfactant production process.

**PRODUCTION CAPACITIES, PRODUCTION PLANT AND STORAGE FACILITY**

**Production capacities**

The following table sets forth our (i) pro-rated designed production capacity; (ii) production volume; and (iii) utilisation rate of ethylene oxide production capacity at our Sanjiang Production Plants for the three years ended 31 December 2009 and the four months ended 30 April 2010:

	<b>Pro-rated designed production capacity (MT)</b>	<b>Production volume (MT)</b>	<b>Utilisation rate (Approximate %)</b>
For the year ended 31 December 2007	60,000 <sup>(Note 1)</sup>	65,906 <sup>(Note 1)</sup>	110 <sup>(Note 4)</sup>
For the year ended 31 December 2008	65,000 <sup>(Note 2)</sup>	67,780 <sup>(Note 2)</sup>	104 <sup>(Note 4)</sup>
For the year ended 31 December 2009	120,000 <sup>(Note 3)</sup>	140,515 <sup>(Note 3)</sup>	117 <sup>(Note 4)</sup>
For the four months ended 30 April 2010	40,000 <sup>(Note 5)</sup>	49,006 <sup>(Note 5)</sup>	123 <sup>(Note 4)</sup>

As of the Latest Practicable Date, our designed annual production capacity of ethylene oxide at our Sanjiang Production Plants was approximately 120,000 MT<sup>(Note 3)</sup>.

*Notes:*

- (1) Representing the designed annual production capacity and production volume of our first production line in our Jiaying Production Plant which commenced production in January 2006.
- (2) Representing and calculated based on the designed annual production capacity and production volume of our first production line in our Jiaying Production Plant and the pro-rated production capacity of our second production line in our Jiaying Production Plant which commenced production in December 2008. Such pro-rated production capacity of our second production line is calculated based on a designed annual production capacity of 60,000 MT and thus, an average designed monthly production capacity of 5,000 MT.
- (3) Representing the designed annual production capacity and production volume of our two production lines in our Jiaying Production Plant.

## BUSINESS

- (4) Representing the percentage of actual production volume as against the designed annual production capacity of our ethylene oxide production facilities. The high utilisation rate of our ethylene oxide production lines is due to (i) the various technology improvements made to our production facilities; and (ii) the extended operating hours of our production facilities beyond the operating hours assumed in the calculation of designed production capacity. According to the SAI Report, these measures are common practice amongst ethylene oxide producers in the PRC. As advised by our PRC Legal Advisers, the fact that our actual production volume of ethylene oxide exceeds our designed production capacity does not contravene the relevant PRC laws and regulations.
- (5) Representing and calculated based on the pro-rated production capacity and production volume of our two production lines in our Jiaying Production Plant. Such pro-rated production capacity is calculated based on a designed annual production capacity of 120,000 MT and thus, an average designed monthly production capacity of 10,000 MT.

The following table sets forth our (i) pro-rated designed production capacity; (ii) production volume; and (iii) utilisation rate of surfactant production capacity at our Sanjiang Production Plants for the three years ended 31 December 2009 and the four months ended 30 April 2010:

	<b>Pro-rated designed production capacity (MT)</b>	<b>Production volume (MT)</b>	<b>Utilisation rate (Approximate %)</b>
For the year ended 31 December 2007	18,000 <sup>(Note 6)</sup>	10,922 <sup>(Note 6)</sup>	61
For the year ended 31 December 2008	109,667 <sup>(Note 7)</sup>	19,815 <sup>(Note 7)</sup>	18
For the year ended 31 December 2009	118,000 <sup>(Note 8)</sup>	52,687 <sup>(Note 8)</sup>	45
For the four months ended 30 April 2010	39,333 <sup>(Note 9)</sup>	18,681 <sup>(Note 9)</sup>	47

As of the Latest Practicable Date, our designed annual production capacity of surfactants at our Sanjiang Production Plants was approximately 218,000 MT<sup>(Note 10)</sup>.

*Notes:*

- (6) Representing the designed annual production capacity and production volume of our production lines in our Xiaoshan Production Plant which commenced production in May 1998.
- (7) Representing and calculated based on the designed annual production capacity and production volume of our production lines in our Xiaoshan Production Plant and the pro-rated production capacity of our first production line in our Jiaying Production Plant which commenced production in February 2008. Such pro-rated production capacity of our first production line in our Jiaying Production Plant is calculated based on a designed annual production capacity of 100,000 MT and thus, an average designed monthly production capacity of approximately 8,333 MT.
- (8) Representing the designed annual production capacity and production volume of our production lines in our Xiaoshan Production Plant and our first production line in our Jiaying Production Plant.
- (9) Representing and calculated based on the pro-rated production capacity and production volume of our production lines in our Xiaoshan Production Plant and our first production line in our Jiaying Production Plant. Such pro-rated production capacity is calculated based on a designed annual production capacity of 118,000 MT and thus, an average designed monthly production capacity of approximately 9,833 MT.
- (10) Representing the designed annual production capacity of our production lines in our Xiaoshan Production Plant and our first and second production lines in our Jiaying Production Plant.

Our production facilities of ethylene oxide and surfactants operate independently and our products are sold separately. It is one of our competitive strengths to possess both ethylene oxide and surfactant production lines. This enables us to respond to the changes in market condition in terms of product pricing and customers' demand in a timely manner by resiliently switching between selling ethylene oxide to the customers and utilising the ethylene oxide manufactured by us to manufacture surfactants. It has been our long term strategy to expand our production capacities of both ethylene oxide and surfactants, as well as to diversify into other related products. Although the demand for ethylene oxide had been rising and the utilisation rate of our ethylene oxide production facilities had been over 100% during the Track Record Period, our Directors were of the view that it would not be a healthy and prudent strategy for us to rely on a single product in the long run. Our Directors are optimistic of the future demand for surfactants in the PRC and had decided to expand our surfactant production capacities so to have a better competitive advantage in the future when the surfactant market is expected to continue to grow. Therefore, despite the relatively low utilisation rate of the surfactant production facilities when compared with that of ethylene oxide, our Directors are of the view that the development of our surfactant business, whether by way of expanding our surfactant production capacities or through acquisition, is imperative for our sustainable growth in the long run.

The utilisation rate of the surfactant production facilities was low in 2008 because our production line with a designed annual production capacity of 100,000 MT in the Jiaxing Production Plant commenced production in February 2008, we spent considerable time and efforts for the business development in light of such significant increase in annual production capacity of surfactants from 18,000 MT to 118,000 MT. This was further affected by the economic downturn resulting from the financial crisis in 2008. With our sales and marketing effort, in 2009, we had achieved a more developed surfactant customer base and thus the utilisation rate of surfactant production facilities increased to approximately 45%.

Also, the utilisation rate of surfactant production facilities during the Track Record Period was partially restricted by the in-house supply of ethylene oxide. The ethylene oxide used for the production of surfactant is entirely supplied in-house. Given the high market demand for ethylene oxide and its relatively higher profit margin during the Track Record Period, our Directors were of the view that it was commercially justifiable for us to allocate more ethylene oxide for sale than for further processing into surfactants. However, as the production capacity of ethylene oxide increased to 120,000 MT in December 2008, a larger portion of ethylene oxide manufactured was utilised to manufacture surfactants. Also, taking into account the third and fourth phase construction of ethylene oxide production lines and the anticipated rising demand for surfactants, our Directors expect that the utilisation rate will improve as more ethylene oxide produced in-house can be allocated for surfactant production as a result of ethylene oxide production capacity expansion.

We have two production plants, namely Jiaxing Production Plant and Xiaoshan Production Plant.

## BUSINESS

### Our Group's expansion plans

The following table sets forth information regarding our Group's planned production facilities, including those that are currently under development:

Production facility	Product type	Target date of commencement of operation	Expected capital expenditure and source of funding
Jiaxing Production Plant – third phase ethylene oxide production facilities with a designed annual production capacity of 60,000 MT	Ethylene oxide	Early 2011	RMB300 million <sup>(Note)</sup> , to be funded by net proceeds of the Global Offering, internal resources and, if necessary, bank borrowings
Jiaxing Production Plant – fourth phase ethylene oxide production facilities with a designed annual production capacity of 100,000 MT	Ethylene oxide	Early 2013	RMB600 million <sup>(Note)</sup> , to be funded by net proceeds of the Global Offering, internal resources and, if necessary, bank borrowings

Moreover, Sanjiang Honam was established in May 2010 in Jiaxing of the Zhejiang Province with a registered capital of US\$12.0 million and a total investment amount of US\$29.2 million. We anticipate that Sanjiang Honam, the sino-foreign joint venture company jointly established and controlled by Honam Petrochemical Corp. and us, will commence the first phase construction of ethylene oxide production facilities with a designed annual production capacity of 100,000 MT at the end of 2010. We expect completion of the construction will take place by the end of 2011. We anticipate that the second phase construction of ethylene oxide production facilities with a designed annual production capacity of 100,000 MT will commence following the commencement of the first phase production of ethylene oxide. We intend to use approximately RMB98 million, to be funded by the net proceeds from the Global Offering, internal resources and, if necessary bank borrowings for capital contribution and investment in Sanjiang Honam. Pursuant to the joint venture agreement between Sanjiang Chemical and Honam Petrochemical Corp., among other things, each of Sanjiang Chemical and Honam Petrochemical Corp. has agreed to purchase 50% of the ethylene oxide produced by Sanjiang Honam at cost. Please refer to the subsection headed “Production capacities, production plant and storage facility – Joint venture arrangement with Honam Petrochemical Corp.” in this section of this prospectus for further details on Sanjiang Honam.

*Note:* The expected licence and process design fees payable under new agreements with SD Company have been included.

### **Jiaxing Production Plant**

We commenced our production of ethylene oxide in January 2006 and our production of surfactants in February 2008 at our Jiaxing Production Plant.

Our Jiaxing Production Plant is strategically located in Jiaxing Port Economic Development Zone of Jiaxing, Zhejiang Province, and is in close proximity to the Port of Zhapu (乍浦港) which is a national first class open port (國家一類開放口岸) for international trade. Our Directors believe that our Jiaxing Production Plant has a definite geographical advantage in reducing cost of transportation of raw materials. Ethylene, our principal raw material for production of ethylene oxide, is generally transported by sea in tankers in large volume. We have installed an ethylene storage tank with capacity of 22,000 cubic metres, the largest ethylene storage tank in China according to the SAI Report on a parcel of land which we own with an aggregate site area of approximately 49,891 square metres near the Port of Zhapu (the “**Ethylene Storage Site**”). Ethylene imported by us is transported by sea to the Port of Zhapu and stored in our ethylene storage tank. Ethylene is then transported to our Jiaxing Production Plant through our own pipelines which ensure safe transportation of ethylene.

Our Jiaxing Production Plant is equipped with advanced equipment and machineries, some of which were purchased and imported from renowned overseas suppliers located in India, the United States and Japan. Such equipment and machineries include reactors and compressors in our ethylene oxide production device and other core equipment in our low temperature ethylene storage device, air separation plant, nitrogen liquefaction plant and carbon dioxide recollecting device. To the best of the knowledge and belief of our Directors, as the abovementioned equipment and machineries are technologically advanced and are largely essential to our operations, there are only very few entrusted alternative suppliers for the aforementioned equipment in the PRC.

As of the Latest Practicable Date, our designed annual production capacities of ethylene oxide and surfactants at our Jiaxing Production Plant were approximately 120,000 MT and 200,000 MT respectively. Our Jiaxing Production Plant has two production lines of ethylene oxide with a designed annual production capacity of 60,000 MT each. Our Jiaxing Production Plant has two production lines of surfactants with a designed annual production capacity of 100,000 MT each.

Our Jiaxing Site holds and occupies three parcels of land with an aggregate site area of approximately 306,764 square metres, over which our Jiaxing Production Plant, office building, equipment room, main control room, warehouses, storage tanks and canteen were constructed. Three properties at our Jiaxing Site with an aggregate gross floor area of approximately 4,779 square metres are under construction.

Among the aforesaid land and properties, two properties with an aggregate gross floor area of approximately 3,702 square metres owned by Sanjiang Chemical have been built on a parcel of land occupied by Yongming Petrochemical. As both Sanjiang Chemical and Yongming Petrochemical are companies within our Group, and Yongming Petrochemical has agreed in writing the aforementioned matters, our Directors believe that the discrepancies between the land user and the owner of the properties thereon will not lead to title disputes between the two companies. Our PRC Legal Advisers have advised that no penalties will be imposed on us due to the aforesaid discrepancies under PRC law. In addition, another two properties with an aggregate gross floor area of approximately 1,872 square metres have been constructed by Sanjiang Chemical on the aforesaid parcel of land occupied by Yongming Petrochemical. Yongming Petrochemical has applied for the building ownership certificates of such properties.

## BUSINESS

We have not obtained building ownership certificates for four ancillary buildings, which are used for security guard rooms, rest lounges and weight room purposes, with a total gross floor area of approximately 580 square metres at our Jiaxing Site. We have not obtained the building ownership certificate for one building, which is used for rest lounge purpose, with a gross floor area of approximately 20 square metres at our Ethylene Storage Site.

As advised by our PRC Legal Advisers, the maximum penalty which the relevant authority may impose on us in respect of the aforesaid five properties would be the order of demolition of such properties within a prescribed time limit and a fine equivalent to less than one time of the construction costs, which, our Directors estimate, would not exceed RMB1.3 million.

Our Directors consider that the lack of building ownership certificates in respect of the aforesaid properties are not crucial to us and will not have a material impact on our operation for the reasons described below:

- (i) the aggregate area of the aforesaid properties represents approximately 1.85% of the total area of properties that we occupy; and
- (ii) these ancillary properties are used for security guard rooms, rest lounges and weight room purposes which are unrelated to our production activities and therefore would not have any material adverse effect on the business, financial condition and results of operation of our Group.

As the aforesaid properties are not production related, we will demolish the aforesaid properties if ordered by the relevant government authorities. The demolishing costs are estimated to be approximately RMB50,000, which, our Directors consider, would have insignificant impact on our financial position. It is not our current intention to relocate to other properties after the demolition.

Please refer to the section headed “Risk factors – Risks relating to our business – We have not obtained legal titles to some of the properties we own” in this prospectus for further details.

Details of the property valuation together with the summary of valuation and valuation certificates from the Independent Valuer are set out in Appendix IV to this prospectus.

### **Xiaoshan Production Plant**

Hangzhou Haoming commenced production of surfactants in May 1998 at the Xiaoshan Production Plant which is located in Xiaoshan, Hangzhou of the Zhejiang Province. We acquired, among other things, the ethylene oxide trading and manufacture and sale of surfactant business of Hangzhou Haoming in April 2010. As Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han, the results of the business acquired from Hangzhou Haoming have been reflected in our Group’s results prior to 31 March 2010 by using merger accounting.

As of the Latest Practicable Date, our designed annual production capacity of surfactants at our Xiaoshan Production Plant was approximately 18,000 MT, with our first production line of designed annual production capacity of 8,000 MT and our second production line of designed annual production capacity of 10,000 MT.

Our Xiaoshan Site occupies two parcels of land with an aggregate site area of approximately 16,733 square metres, over which our Xiaoshan Production Plant, office building, equipment room, main control room, warehouses and storage tanks were constructed. We have rented the properties with a total gross floor area of approximately 8,312 square metres on these two parcels of land from Hangzhou Haoming. Please refer to the section headed “Connected transactions” in this prospectus for details on the leases from Hangzhou Haoming.

Details of the property valuation together with the summary of valuation and valuation certificates from Independent Valuer are set out in Appendix IV to this prospectus.

#### **Joint venture arrangement with Honam Petrochemical Corp.**

On 4 May 2010, Sanjiang Chemical entered into a joint venture agreement and a supplemental agreement with Honam Petrochemical Corp. (湖南石油化學株式會社) (“HPC”) which is a Korea-based petrochemical manufacturer, to establish Sanjiang Honam, a sino-foreign joint venture company in Jiaxing of the Zhejiang Province. Products manufactured by HPC include resins, ethylene oxide, ethylene glycol, benzene and other petrochemical and chemical products.

Pursuant to the joint venture agreement, Sanjiang Chemical and HPC agreed to establish Sanjiang Honam, a sino-foreign joint venture company jointly controlled by Sanjiang Chemical and HPC, with a registered capital of US\$12.0 million and a total investment amount of US\$29.2 million. Each of Sanjiang Chemical and HPC has an obligation to contribute a total of US\$6.0 million to the registered capital of Sanjiang Honam for a 50% shareholding interest. Moreover, Sanjiang Chemical and HPC have agreed that the net profit after tax derived in Sanjiang Honam, less any reserve funds, staff welfare funds and enterprise development fund, will be divided amongst them with reference to their respective percentage of capital contribution. Under the supplemental agreement, each of Sanjiang Chemical and HPC has agreed to purchase 50% of all ethylene oxide produced by Sanjiang Honam, the price of which shall be determined with reference to the actual cost of ethylene and other production costs incurred in the production process. Accordingly, ethylene oxide produced in Sanjiang Honam will only be sold to its shareholders. Pursuant to the supplemental agreement, in the event where HPC is unable to purchase the entire 50% of the ethylene oxide produced in a month, Sanjiang Chemical has agreed to take over and sell the remaining quantity and pay HPC 98.5% of the market value of the same. Alternatively, in the event where HPC’s demand for ethylene oxide exceeds the contracted quantity in a month, Sanjiang Chemical shall make, in favour of HPC, preferential adjustments to its share of ethylene oxide in exchange for HPC’s payment of 98.5% of the market value of the quantity transferred. HPC has agreed to supply ethylene to Sanjiang Chemical before Sanjiang Honam commences operations. Furthermore, Sanjiang Chemical has agreed to lease a piece of industrial land and to provide ancillary facilities and repair and maintenance services to Sanjiang Honam at agreed rates.

On 11 May 2010, Sanjiang Chemical and HPC established Sanjiang Honam in accordance with the terms and conditions of the joint venture agreement. Each of Sanjiang Chemical and HPC holds 50% shareholding interest and is entitled to appoint 50% of the members of the board of directors. As of Latest Practicable Date, each of Sanjiang Chemical and HPC has paid US\$1,199,858.30 and US\$1,200,000 respectively as its registered capital contribution. It is intended that Sanjiang Honam will principally engage in the manufacture and sale of ethylene oxide, ethylene glycol, oxygen, nitrogen and argon. The capital injected will be used for the construction of production facilities of Sanjiang Honam to produce ethylene oxide. We expect to commence the first phase construction of ethylene oxide production facilities with a designed annual production capacity of 100,000 MT at the end of 2010 and complete the

construction by the end of 2011. We anticipate that the second phase construction of ethylene oxide production facilities with a designed annual production capacity of 100,000 MT will commence following the commencement of the first phase production of ethylene oxide.

Under the prevailing PRC rules and regulations, ethylene oxide construction projects with an annual capacity of less than 200,000 MT are expressly banned. By forming a joint venture with HPC, we would be able to indirectly increase our ethylene oxide production capacity without a relatively large amount of initial capital outlay. Furthermore, by forming a non-controlling joint venture with HPC, we seek to strengthen the economical relationship and engage in technology exchanges with HPC, which our Directors believe would benefit both parties in terms of future business development. In addition, as HPC has agreed to supply ethylene to Sanjiang Chemical before Sanjiang Honam commences operations, our supply of ethylene can be further secured.

As we own a 50% shareholding interest in Sanjiang Honam and have the right to appoint 50% of the members of the board of directors, we do not control Sanjiang Honam. Therefore we do not account for Sanjiang Honam as our subsidiary.

### **Ethylene oxide production technology**

In January 2004, August 2006 and May 2009, we entered into licence, process design and technical assistance services agreements with Scientific Design Company, Inc. (“**SD Company**”). SD Company is a U.S. company established in 1946 that licenses petrochemical process technology, provides process engineering services and develops, manufactures and sells catalysts worldwide. According to the SAI Report, it is amongst a few dominant companies which possesses ethylene oxide production technologies and is one of the leading process technology companies that provide ethylene oxide production technologies to PRC ethylene oxide manufacturers. According to the SAI Report, there are at least two other companies that provide similar technologies.

The respective term of the agreements shall commence on the relevant effective date of the agreements and shall terminate on the fifth anniversary of the date of start-up, being the date on which feedstock is first introduced into the reactor system for the purpose of producing ethylene oxide. Under the agreements, we are granted with licences to use and practise a process, which is critical to our production of ethylene oxide. The licences granted are perpetual, non-exclusive and non-transferable. During the term of the agreements, SD Company shall disclose and make available to us the know-how and technical information relating to the production of ethylene oxide and engineering design of ethylene oxide production unit for our three production lines in our Jiaying Production Plant. SD Company also provides us with technical direction and technical assistance services in relation to the start-up, initial operation and performance tests of the three ethylene oxide production lines in our Jiaying Production Plant. We paid a one-off licence fee and process design fee for each of the agreements. The one-off licence fee and process design fee for our three ethylene oxide production lines totalled at approximately US\$6.8 million under the agreements. We have to pay a fee for technical assistance services provided by the technical personnel of SD Company at location away from the premises of SD Company and the expenses incurred by the said personnel only if such services are so requested by us. We have not requested for such services from SD Company during the Track Record Period and as of the Latest Practicable Date. No additional fee or royalty is required to be paid annually for the Group’s use of the relevant know-how and technical information. Save for a sum of approximately US\$172,820 which is not yet due and payable under the terms of the agreement dated 7 May 2009, we have satisfied all our payment obligations under the agreements in a timely manner. During the Track Record Period and as at

the Latest Practicable Date, we had not defaulted on any provisions of the agreements with SD Company. The current agreements with SD Company only cover our two existing ethylene oxide production lines and our third ethylene oxide production line which will commence operation in early 2011. Accordingly, we have to enter into new agreements with SD Company for any other new production lines in the future. We expect that the fees payable under the new agreements with SD Company would be approximately US\$2 million for each of our fourth phase ethylene oxide production line and the new ethylene oxide production line of Sanjiang Honam.

Under the agreements, among other things, SD Company may, at its option, terminate the agreements and the licences granted forthwith by written notice to us if any payment required to be made by us under the agreements shall not be made when due and such default shall continue and remain unremedied for more than 90 days after written notice thereof is given by SD Company; or if we shall make any other material default thereunder and such default shall continue and remain unremedied for more than 90 days after written notice thereof is given to us by SD Company. We may at our option terminate the agreements forthwith by written notice to SD Company if SD Company shall make any material default under the provisions of the agreements and such default shall continue and remain unremedied for more than 90 days after written notice is given to SD Company by us.

#### **Engineering design of surfactant production facilities**

In February 2007, we contracted China BCEL International Engineering Co., Ltd.\* (中國中輕國際工程有限公司) (“**BCEL**”), a large-scale engineering consulting corporation in the PRC, for installation of the first phase of our surfactant production facilities with a designed annual production capacity of 100,000 MT at our Jiaxing Production Plant. In May 2009, we entered into an engineering design contract with BCEL for the engineering design of the second phase of our surfactant production facilities with a designed annual production capacity of 100,000 MT at our Jiaxing Production Plant. Under the aforesaid agreements entered into with BCEL, we are provided by BCEL with, among other things, know-how and technical information relating to the production of surfactant and engineering design of our first and second production lines of surfactants in our Jiaxing Production Plant. We paid a one-off contracting fee to BCEL under each of the aforesaid agreements in a timely manner.

#### **Technology advancement**

In addition to the technologies provided by the abovementioned technology and engineering companies, our technology team constantly seeks technology advancement to our production facilities with an aim to improve our production capacity and efficiency, as well as reduce costs. In 2007, we installed filler materials in the scrubber of our ethylene oxide production device, which enhanced ethylene oxide absorption, thereby increasing our production efficiency. Furthermore, in 2009, we made technology advancement in the cooling device for recycled water used in the production of ethylene oxide by replacing four electric cooling fans with hydro-turbine fans, which reduced our energy consumption in the production process.

### **Ethylene storage facility**

Our ethylene storage facility is located at the Port of Zhapu in Jiaxing, Zhejiang Province.

We own a parcel of land with an aggregate site area of approximately 49,891 square metres adjacent to the Port of Zhapu which is a national first class open port for external trade. We have installed an ethylene storage tank with a total storage capacity of approximately 22,000 cubic metres on such parcel of land for storage of ethylene which we imported. Such storage tank can effectively store 12,075 MT of ethylene which we imported. According to the SAI Report, our ethylene storage tank was the largest in China in terms of storage capacity as of 30 April 2010. Ethylene, our principal raw material for production of ethylene oxide, is transported by sea to the Port of Zhapu and stored in our ethylene storage tank. As ethylene is inflammable, our fully sealed ethylene storage tank provides suitable storage conditions by keeping ethylene in liquid state at or below the temperature of -104°C. Ethylene is then transported to our Jiaxing Production Plant which is in close proximity to the Port of Zhapu through our own pipelines to ensure safe transportation of ethylene.

Our ethylene storage tank can ensure a safe storage and stable supply of ethylene for our production. To ensure safe operating conditions of our ethylene storage tank, we conduct physical safety inspections every two hours on a daily basis. Our personnel who are responsible for monitoring the safety parameters of storage tank will report any irregularities and make any adjustments if necessary during the inspections. Further, our ethylene storage tank is equipped with automatic alarm and fire extinguishing systems and emergency stop mechanisms to allow our personnel to immediately control or attend to any emergency incidents and thus, prevent any damage done to our employees, ethylene stored and operation.

In order to accommodate our increasing ethylene oxide production capacity, we commenced the construction of our second ethylene storage tank having a total storage capacity of approximately 22,000 cubic metres on such parcel of land at Port of Zhapu in the second quarter of 2010. We anticipate the construction will be completed by the second quarter of 2011.

### **SUPPLIER AND PURCHASES**

Our principal raw material for our production of ethylene oxide is ethylene which we purchase from our suppliers. The principal raw material for our production of surfactants is ethylene oxide, which we manufacture ourselves. Other raw materials for production of surfactants vary depending on the type of surfactants to be manufactured. Fatty alcohol is a common type of raw material for production of surfactants.

We principally source and purchase ethylene from suppliers in Japan. According to SAI Report, approximately 98% of the domestic ethylene supplied is primarily for internal use of the suppliers and is not traded in the open market. To the best of the knowledge and belief of our Directors, domestic supplies of ethylene which can support our production capacity are not currently available in China. We generally maintain at least three suppliers so as to avoid reliance on any single source of supply. We regularly review and compare the pricing and terms offered by the suppliers. We also conduct routine sample tests of ethylene we purchase from our suppliers. These measures give assurance on the quality and reliability of ethylene for our production of ethylene oxide.

We enter into legally binding contracts with most of our suppliers on a yearly basis to fix the quantity of ethylene, ranging from approximately 100,000 MT to 240,000 MT, to be supplied to us in that year. We then place purchase orders from time to time according to our production needs. This ensures a steady supply of ethylene.

The price of ethylene is agreed between our suppliers and us with reference to the CFR price quoted by ICIS at the time the purchase orders are placed. ICIS is an information provider for the chemical and oil industry. We believe that ICIS is trusted by many of the world's largest chemical companies, as well as manufacturers, analysts and traders of the relevant industry. Our purchases are mostly settled in USD and mainly through letters of credit. Our suppliers normally grant us approximately 90 days' credit period.

We source fatty alcohol, the main raw material for AEO surfactants, and other raw materials from local PRC suppliers. We place purchase orders from time to time according to our production needs. The prices of fatty alcohol and other raw materials are agreed between our suppliers and us with reference to the prevailing market prices of fatty alcohol and other raw materials respectively. Our payments for purchases are mostly settled in RMB by means of bank acceptances.

We have established good business relationship with most of our suppliers, among which, are reputable companies from Japan, with whom we have established business relationship since 2007. We believe that such relationship will continue to be good and stable. However, our Directors believe that alternative suppliers can easily be identified if so required. During the Track Record Period, we did not experience any difficulty in sourcing suppliers for raw materials or any production disruption due to shortage of supply of raw materials.

During the Track Record Period, our five largest raw material suppliers, who were Independent Third Parties, together accounted for approximately 79.3%, 68.0%, and 68.9% and 83.1% of our total purchases of raw materials respectively, and our largest raw material supplier accounted for 47.7%, 65.1%, 40.3% and 47.4% of our total purchases of raw materials respectively. None of our Directors or their respective associates or any Shareholder, who to the knowledge of our Directors, owns more than 5% of the issued Shares immediately after completion of the Global Offering, had any interest in any of our five largest raw material suppliers during the Track Record Period.

## **RAW MATERIALS, ENERGY AND UTILITIES**

### **Raw materials**

The principal raw materials for our production of ethylene oxide are ethylene and oxygen. Oxygen is separated through our air separation plant from air. Ethylene is the key raw material purchased by our Group. During the Track Record Period, the cost of ethylene we consumed for sales amounted to approximately RMB525.9 million, RMB536.8 million, RMB577.4 million and RMB347.7 million respectively, representing approximately 78.8%, 73.7%, 62.1% and 76.4% of our total cost of sales.

One of the principal raw materials for our production of surfactants and surfactant processing services is ethylene oxide which we manufactured from ethylene. We do not have to source ethylene oxide from external suppliers. Other raw materials for production of surfactants vary depending on the type of surfactants to be manufactured.

In providing surfactants processing services, raw materials other than ethylene oxide, such as fatty alcohol are provided by our customers and delivered to our Sanjiang Production Plants for processing into surfactants, whilst we also procure auxillary raw materials for our surfactants processing customers.

During the Track Record Period, we did not experience any shortage of supply of raw materials and raw materials costs accounted for approximately 81.2%, 76.9%, 71.2% and 80.5% of our total cost of sales respectively.

### **Energy and utilities**

Electricity is the principal power source for our production. We have secured a double-circuit electricity power supply from 浙江嘉興電力局 (Zhejiang Jiaxing Electric Power Bureau) to our Sanjiang Production Plants to maintain a stable electricity supply. During the Track Record Period, the cost of electricity supply for our production amounted to approximately RMB55.1 million, RMB75.2 million, RMB115.1 million and RMB37.6 million respectively, representing 8.3%, 10.3%, 12.4% and 8.3% of our cost of sales respectively. During the Track Record Period, we did not experience any electricity supply shortage.

Desalinated water is used for absorption of ethylene oxide in the production of ethylene oxide and cooling of reactants in the production of both ethylene oxide and surfactants. We purchase desalinated water from Jiahua Industrial Park Co, a company ultimately controlled by Mr. Guan and Ms. Han. Please refer to the section headed “Connected transactions – Continuing connected transactions subject to reporting, announcement and independent shareholders’ approval requirements – Supply agreements – Water and miscellaneous materials supply agreement” in this prospectus for further details on the transaction. In order to reduce water usage and waste water discharge, we have installed water treatment facilities in our Sanjiang Production Plants for water recycling purpose. During the Track Record Period, we did not experience any water shortage.

Steam is used for heating of reactants in the production of both ethylene oxide and surfactants. We purchase steam for heating of reactants from Jiahua Industrial Park Co, a company ultimately controlled by Mr. Guan and Ms. Han. Please refer to the sections headed “Connected transactions – Continuing connected transactions subject to reporting, announcement and independent shareholders’ approval requirements – Supply agreements – High pressure steam supply agreement” and “Connected transactions – Continuing connected transactions subject to reporting, announcement and independent shareholders’ approval requirements – Supply agreements – Low pressure steam supply agreement” in this prospectus for further details on the transactions. Steam is also used for vaporising the ethylene we imported. Ethylene in gaseous state is then transported to our Jiaxing Production Plant through our own pipelines. We purchase steam for vaporisation of ethylene from Jiaxing Rewang, a company which is owned as to 40% by Jiahua Industrial Park Co. Please refer to the section headed “Connected transactions – Continuing connected transactions exempt from reporting, annual review, announcement and independent shareholders’ approval requirements – Purchasing low pressure steam from Jiaxing Rewang – Low pressure steam supply agreement with Jiaxing Rewang” in this prospectus for further details on the transaction.

During the Track Record Period, the total utilities expenses amounted to approximately RMB69.3 million, RMB99.3 million, RMB165.1 million and RMB53.9 million respectively, representing approximately 10.4%, 13.6%, 17.8% and 11.8% of our total cost of sales respectively.

## **SALES AND MARKETING**

### **Marketing and promotion**

We market our products through our sales and marketing teams. The responsibilities of the sales and marketing teams include the promotion of our products to potential and existing customers, market research and analysis, implementation of marketing and sales strategies, customer visits and provision of after-sale services. As of the Latest Practicable Date, our sales and marketing teams comprised seven personnel. We provide training to our sales personnel including information on our products and their applications and customer service skills. We recognise the importance of marketing to our business growth and have adopted the following marketing strategies:

#### *Advertisements*

To enhance the awareness of our products, we regularly place advertisements in industry magazines to promote our brand and our products.

#### *Industry conferences*

We attend industry conferences to explore new potential customers and maintain relationships with existing customers. After identifying potential target customers during the industry conferences, our sales and marketing team will follow up by phone calls or visiting the potential customers in person to understand their needs and seek business opportunities.

#### *Customer nurturing*

We treasure the business relationship with our customers. Our sales and marketing team pays regular visits to our existing customers thus to maintain good relationships with our customers, keep abreast of their needs and obtain their feedbacks on the quality of our products.

We also keep abreast with the latest market development by subscribing to industry intelligence, conducting news searches and paying customers visits. Our sales and marketing team regularly updates our management with the latest market trend who in turn will adjust our sales and marketing plan or product mix if necessary.

### **Customers**

We have established years of good business relationship with most of our major customers since 2006 and are committed to providing high quality customer service. Our ethylene oxide customers include manufacturers of surfactants and other chemicals, as well as trading companies which sell our products to their customers in the PRC. For the two years ended 31 December 2008, our revenue derived from sales of ethylene oxide attributable to trading companies was over 80% and 50% respectively with the remaining attributable to manufacturers as we sought to, through the broad distribution network of trading companies, market our ethylene oxide when we were still relatively new to the ethylene oxide market. For the year ended 31 December 2009 and the four months ended 30 April 2010, over 60% of our ethylene oxide was sold to manufacturers of surfactants and other chemicals with the remaining attributable to trading companies. The shift in our focus from trading companies to manufacturers was part of our strategy to develop our own distribution channels and customer base in order to secure a steady

## BUSINESS

and long term source of revenue through direct business relationships with end customers. Our top ten ethylene oxide customers included 嘉興金燕化工有限公司 (Jiaxing Jinyan Chemical Co., Ltd.\*) and 江蘇銀燕化工股份有限公司 (Jiangsu Yinyan Speciality Chemicals Co., Ltd.\*) during the Track Record Period. 嘉興金燕化工有限公司 (Jiaxing Jinyan Chemical Co., Ltd.\*) was one of our overall top ten customers for the two years ended 31 December 2009 and the four months ended 30 April 2010. 江蘇銀燕化工股份有限公司 (Jiangsu Yinyan Speciality Chemicals Co., Ltd.\*) was one of our overall top ten customers for the two years ended 31 December 2008. Our surfactants customers and our surfactant processing customers include manufacturers of household and industrial cleansing agent and trading companies which sell our products to their customers in the PRC. For the two years ended 31 December 2008, our revenue derived from sale of surfactants attributable to manufacturers was over 80% and 60% respectively with the remaining attributable to trading companies. For the year ended 31 December 2009 and the four months ended 30 April 2010, over 70% of the Group's surfactants were sold to trading companies with the remaining attributable to manufacturers. As the new surfactant production line of our Jiaxing Production Plant commenced production in 2008 and a larger portion of our self-manufactured ethylene oxide was available for production of surfactants as a result of the expanded production capacity in December 2008, we were able to increase our surfactants output. As such, we shifted our focus from manufacturers to trading companies since 2009 in order to enhance the market penetration of our surfactants products through the broad distribution network of trading companies. Our top ten surfactants customers included 納愛斯集團有限公司 (Nice Group Co., Ltd.\*), 麗水市雕牌化工有限公司 (Lishui City Diao Brand Chemical Co., Ltd.\*) and 浙江傳化股份有限公司 (Zhejiang Transfar Co., Ltd.\*) during the Track Record Period. As of the Latest Practicable Date, all of our customers are PRC companies located in China.

The following table sets forth the breakdown of our customer composition (approximate %) for our ethylene oxide and surfactants products during the Track Record Period:

	For the year ended 31 December			For the four months ended
	2007	2008	2009	30 April 2010
Ethylene oxide				
Manufacturers	18%	45%	61%	64%
Trading companies	82%	55%	39%	36%
Surfactants				
Manufacturers	89%	61%	28%	20%
Trading companies	11%	39%	72%	80%

Since 2009 we have entered into contracts with a majority of our ethylene oxide customers on a yearly basis to fix the quantity of ethylene oxide to be supplied to them for the following year. They then place purchase orders with us from time to time. We do not enter into long term contracts with our surfactants customers and our surfactant processing customers.

The prices of ethylene oxide and surfactants are agreed between our customers and us with reference to the prevailing market prices of ethylene oxide and surfactants respectively. Our surfactant processing fees are agreed between our customers and us with reference to the market prices of ethylene oxide, our costs of auxillary raw materials, energy, utilities and labour plus a profit margin.

## BUSINESS

We generally deliver ethylene oxide to our customers after they have made full payment.

We generally grant to our surfactants customers and our surfactants processing customers credit period of less than 30 days after the date of delivery depending on the relevant customer's reputation and creditworthiness and size of purchase orders. Our management has delegated a cross-department team, headed by a general manager, comprising staff members from sales department, finance department and legal department to assess and monitor the credit risks of the customers. In order to manage the credit risks associated with trade receivables effectively, each customer has a maximum credit limit and the credit limits are evaluated periodically. The credit limits are assessed with reference to the sales contracts entered into by each customer and the corresponding repayment progress is closely followed up by the sales department in order to ensure prompt action is taken to recover overdue debts. The trade receivables of our Group amounted to approximately RMB34.0 million, RMB20.0 million, RMB17.8 million and RMB18.6 million as at 31 December 2007, 2008 and 2009 and 30 April 2010 respectively.

Our customers usually settle their payment in RMB through telegraphic transfers or by means of bank acceptances (銀行承兌匯票).

During the Track Record Period, our five largest customers, who were Independent Third Parties (save for 浙江贊宇科技股份有限公司 (Zhejiang Zanyu Technology Co. Ltd.\*) ("**Zhejiang Zanyu**") by virtue of Mr. Guan's indirect shareholding in Zhejiang Zanyu), together accounted for approximately 62.0%, 49.8%, 39.8% and 44.6% of our revenue respectively, and our largest customer accounted for 38.4%, 19.2%, 18.5% and 19.5% of our revenue respectively. Jiahua Industrial Park Co, a company ultimately controlled by Mr. Guan and Ms. Han, holds approximately 4.87% shareholding interest in Zhejiang Zanyu which is one of our five largest customers. Zhejiang Zanyu holds the entire shareholding interest in 嘉興贊宇科技有限公司 (Jiaxing Zanyu Technology Development Co, Ltd.\*) ("**Jiaxing Zanyu**", together with Zhejiang Zanyu, the "**Zanyu Group**"). During the Track Record Period, the revenue attributable to Zanyu Group were approximately RMB0, RMB48.4 million, RMB59.9 million and RMB32.3 million respectively, representing approximately 0%, 5.1%, 6.5% and 5.7% of our revenue, respectively. Zanyu Group is principally engaged in the businesses of the manufacture of leather chemicals, surfactants and daily chemical products. To the best of the knowledge and belief of our Directors, the surfactants products manufactured by Zanyu Group are different from those products manufactured by us. We mainly manufacture non-ionic surfactants products, whereas, to the best of the knowledge and belief of our Directors, Zanyu Group mainly manufactures anionic surfactants products, which are different types of surfactants with different chemical properties. Our surfactants products, namely AEO surfactants, are generally used as raw materials for the production of Zanyu Group's surfactants products, namely AES and AESA and hence, Zanyu Group's products are the downstream products of our AEO surfactants. As such, Zanyu Group is not engaged in any business in direct competition with our Group. The transactions entered into between our Group and Zanyu Group were carried out on normal commercial terms and did not have the effect of distorting our results in the Track Record Period.

In 2009, we ceased trading with a major customer which accounted for approximately 45% and 22% of our revenue in 2007 and 2008 respectively. In 2007 and 2008, the early stage of our Group's ethylene oxide business, our Group supplied large quantities of ethylene oxide to such customer which was a dominant player in the PRC oil-refined products and petrochemical products market. In order to maintain business relationship, we provided concessions to such customer in the form of lower selling price for the ethylene oxide and credit period which deviated from our normal commercial terms. As our business gradually developed and also in order to reduce our reliance on a single major customer, we

## **BUSINESS**

sought better business opportunities with many other ethylene oxide customers, who were willing to provide better prices and business terms for our ethylene oxide. As such, sales to such customer gradually decreased to the extent that it ceased to be one of our top five customers from 2009 onwards.

Save for the aforesaid, none of our Directors or their respective associates or any Shareholder, who to the knowledge of our Directors, owns more than 5% of the issued Shares immediately after completion of the Global Offering, had any interest in any of our five largest customers during the Track Record Period.

### **Customer service**

We are dedicated to providing customer service of the highest quality. We demonstrate flexibility and innovation in our endeavour to develop customised solutions to meet our customers' needs. We also endeavour to supply our products to our customers in a timely manner even if purchase orders are made under short notice. We run an around the clock operation throughout the year so that our customers can take delivery of our products at any time.

In addition, we regularly visit our customers and conduct customer surveys in order to understand their evolving needs and resolve their concerns proactively. These regular visits also enable us to gain an insight into the latest market trends and capture potential business opportunities.

### **LOGISTICS AND TRANSPORTATION**

Our products are delivered to our customers through our own pipelines or by land or sea transportation. We generally deliver ethylene oxide, surfactants, oxygen, nitrogen and argon in liquid state to our customers by road tankers. We also deliver ethylene oxide in liquid state and nitrogen in gaseous state through our own pipelines to customers which are in close proximity to our Jiaying Production Plant to reduce transportation cost. Surfactants are also delivered to our customers by trucks and vessels.

We generally do not provide free delivery services to our customers. Some of our customers take delivery of our products at our production facilities or make their own transportation arrangements. We also assist our customers in arranging for transportation services from Independent Third Party transportation services providers.

### **INVENTORY CONTROL**

Our inventories mainly consist of raw materials, which are mostly chemicals including ethylene, fatty alcohol and other auxiliary materials, and our finished products. We conduct our production planning in conjunction with our purchasing and sales planning on a regular basis and maintain records of our inventory levels. This enables our production, procurement and sales departments to effectively monitor changes and levels of inventory on a timely basis. We adjust our production plan, raw materials purchase plan and sales plan accordingly based on such information.

Some of our customers enter into contracts with us on a yearly basis to fix the quantity of ethylene oxide to be purchased from us for the following year. This enables us to conduct production planning and inventory planning in advance without the need of maintaining a higher buffer inventory level. During the Track Record Period, the sales of ethylene oxide to these customers accounted for approximately

0%, 1%, 54% and 91% of our total revenue derived from sales of ethylene oxide respectively. In the early stage of our Group's business, our Group supplied large quantities of ethylene oxide to a customer which was a dominant player in the PRC oil-refined products and petrochemical products market, who did not enter into contracts with us on a yearly basis. As our business gradually developed, we sought better business opportunities with many other ethylene oxide customers, who were more willing to enter into contracts with us on a yearly basis. As a result, we have been able to improve our production and inventory planning since 2009.

In addition, given our ability to manufacture ethylene oxide and over 100 types of surfactants, we are able to respond to the changes in market condition in terms of product pricing and customers' demand in a timely manner by resiliently switching between selling ethylene oxide to our customers and utilising the ethylene oxide manufactured by us to manufacture surfactants, with an aim to increase our overall profitability.

Our Directors believe that, by implementing the above measures, we can effectively control our inventory level in order to better control our cost and thereby increase our profitability.

Our inventories as at 31 December 2007, 2008 and 2009 and 30 April 2010 amounted to approximately RMB94.8 million, RMB77.1 million, RMB67.7 million and RMB115.2 million respectively.

## **QUALITY AND SAFETY CONTROL**

We place substantial emphasis on quality control of our products. We were accredited the certificate of "ISO9001 Quality Management System" in June 2008 for our good quality management practices in Sanjiang Chemical.

As of the Latest Practicable Date, our Group had a quality control team comprising 29 personnel who were qualified technicians and staff members. Some of our Group's quality control staff possess (i) vocational certificates and/or (ii) diplomas from technical institutes in the PRC. Most of the personnel have vast experience in the chemical industry.

We provide regular internal and external training programmes to our quality control personnel in order to standardise the quality control procedures. Such training programmes include quality control in the production process. Attendees are usually required to sit for a test after the training.

We have implemented a series of internal policies to ensure thorough and strict quality control during the various stages of production, from raw material purchase, production process to inventory storage. Sample testing of raw materials is conducted to ensure that the quality of raw materials meets our required standard. We have set up multiple inspection points at different production stages to test our products during the production process as well as random sample testing. Each of our Sanjiang Production Plants has a team of personnel who are responsible for monitoring the parameters of equipment, stability of materials, reporting any irregularities and making adjustments accordingly during the production process. We maintain records of storage levels of our raw materials and products to ensure that the storage level is in strict compliance with the relevant safety standards and the PRC laws and regulations.

We follow up with our customers by regular visits or customer surveys on product quality after delivery to ensure a high level of client satisfaction and sustained long term quality relationship.

We are committed to achieving a high standard of industrial health and safety. We have implemented a series of internal policies to ensure health and safety of our employees and have taken measures to comply with all relevant PRC laws and regulations applicable to health and safety. In particular, we have 15 designated personnel for our production plants who are responsible for, among others, overseeing and monitoring our labour, hygiene and safety conditions. Most of these personnel received internal and/or external trainings on production safety. Three of them possess the qualifications for production safety management issued by the Administration of Work Safety of Jiaxing Port Economic Development Zone and/or the Administration of Work Safety of Xiaoshan District, Hangzhou. Furthermore, four factory managers and/or deputy managers who are in charge of our production have also obtained such qualifications. Mr. Niu Yingshan, our executive Director, is responsible for the management of production safety of our Group. Mr. Niu also possesses the aforesaid qualification for production safety management. From September 2007 to August 2008, Mr. Niu was appointed by Jiaxing Port Economic Development Zone Management Committee of Development and Construction (嘉興港區開發建設管理委員會) as a technical consultant on production safety of Jiaxing Port Economic Development Zone. Since April 2010, Mr. Niu has been appointed by Haiyan Administration of Work Safety (海鹽縣安全生產監督管理局) as a member of the Expert Committee on Production Safety of Chemical Industry in Haiyan, Jiaxing for a term of two years. With an aim to ensure adequate safety knowledge amongst all personnel in the workplace, we provide induction and safety education programmes to our employees through the provision of safety instruction manuals, training seminars and safety knowledge and response testing. Moreover, as our personnel control and monitor the daily operation of our production facilities from computerised operation control rooms, as well as conduct periodic physical safety inspections of our production equipment and facilities, we have the ability to attend to any safety and health issues without delay and thus, provide a healthy and safe workplace for our personnel.

During the Track Record Period, our annual expenditure in respect of safety matters were approximately RMB2.3 million, RMB4.9 million, RMB0.9 million and RMB1.9 million respectively. We incurred relatively high safety-related expenses in 2008 as we conducted a comprehensive repair and maintenance work on our production facilities. We estimate that approximately RMB6.8 million will be expended as safety costs for the full maintenance of our production facilities in 2010 and approximately RMB8.4 million will be expended for our third phase of the ethylene oxide production project to be completed in 2011.

Our chemical production business involves the handling, storage and use of hazardous, flammable and explosive materials, including ethylene, ethylene oxide and ethylene glycol. Improper handling of these hazardous materials can cause serious health and safety issues. We have not experienced any major incidents of improper handling of hazardous materials or products since the establishment of each of the members of our Group. We have been subject to the inspections by the local governmental authority from time to time. During the Track Record Period, we had complied with all relevant PRC health and safety laws and regulations and had not been subject to any fine, penalty or citation for our health and safety measures. During the Track Record Period, there had not been any major work accidents causing material health or safety issues. As advised by our PRC Legal Advisers, all the relevant licences and permits in relation to the safety control of our Group are valid and so far as our PRC Legal Advisers are aware, there is no legal impediment for renewal of such licences and permits.

## **RESEARCH AND DEVELOPMENT**

We have a research and development centre at our headquarters in Jiaxing, which employed 19 engineers and technicians in our operation and production departments as of the Latest Practicable Date. These engineers and technicians, apart from performing production and other operational functions, engage in research and development projects organised and decided by our research and development centre. With our research and development team, we strive to enhance our manufacturing technologies, improve the quality of our existing products and develop new types of surfactants.

We plan to explore opportunities to form collaboration and/or cooperation with universities in the PRC to upgrade our production technologies and reduce our production costs.

## **EMPLOYEES**

As of the Latest Practicable Date, we had a total of 462 full-time employees. The following sets out the number of employees by function as of the Latest Practicable Date:

	<b>Number of employees</b>
Senior management	6
Technical	6
Finance and accounting	10
General administration	19
Operation and production	378
Sales and marketing	7
Quality control	29
Procurement	7
	<hr/>
Total	462
	<hr/> <hr/>

Our Directors believe that our success is attributable in part to our ability to attract, recruit and retain quality employees.

In order to maintain the quality, knowledge and skill levels of our employees, we place strong emphasis on training. We provide training to our employees periodically, including introductory training for new employees, technical training, professional and management training and health and safety training.

We provide employee benefits, including housing subsidies, shift subsidies, bonuses, allowances, medical check-up, staff quarters, social insurance contributions (including unemployment insurance, medical insurance, work-related injury insurance, pension insurance and maternity insurance) and housing fund contributions. During the Track Record Period, our aggregate staff costs (including Directors' remuneration) amounted to approximately RMB13.5 million, RMB14.7 million, RMB22.9 million and RMB7.4 million respectively, representing approximately 1.5%, 1.5%, 1.8% and 1.3% of our total revenue.

We enter into individual employment/ labour contracts with our employees with terms ranging from one year to five years. Housing subsidies are provided to some of our employees who have entered into long term employment contracts with us.

We have not experienced any significant difficulty in recruiting employees. We have not experienced any strikes, work interruptions or labour disputes. Our Directors consider that we have good relationships with our employees.

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social insurance contributions and housing fund contributions. During the Track Record Period, we did not fully comply with the social insurance and housing fund requirements for our employees because (i) a number of employees declined our Group's payment of social insurance contributions on their behalf as such payment might reduce their direct disposable income; and (ii) a number of employees declined our Group's payment of housing fund contributions on their behalf as they did not foresee that they would purchase properties in the near future and given that the contributions made would not be returned to them in cash, they preferred not to make such contributions. We estimate that the aggregate unpaid amount by our Group to the social insurance authority for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 would be approximately RMB1.03 million, RMB1.40 million, RMB1.86 million and RMB0.69 million respectively, and the aggregate unpaid amount by our Group to the housing fund authority for the years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010 would be approximately RMB0.69 million, RMB1.00 million, RMB1.14 million and RMB0.31 million respectively. We have made the relevant provisions in our Group's consolidated accounts.

In hope to settle the outstanding social insurance and housing fund contributions, we and our PRC Legal Advisers have consulted Pinghu Social Insurance Management Centre (平湖市社會保險管理中心) and Jiaxing Housing Fund Management Centre Pinghu branch (嘉興市住房公積金管理中心平湖市中心), being the competent social insurance and housing fund authorities which supervise us in relation to our Group's social insurance and housing fund contributions in Jiaxing, Zhejiang Province of the PRC respectively. Our PRC Legal Advisers have advised, based on the consultation with the social insurance authority, the social insurance authority would not accept our payments for the outstanding social insurance contributions for our former employees. As to our current employees, the social insurance authority would only allow us to settle the relevant outstanding amounts since their commencement of employment or since the employees have payment records on social insurance contributions at Pinghu Social Insurance Management Centre, whichever is later. As the aforementioned conditions do not apply to any of our current employees, the social insurance authority would not accept our payments for the outstanding social insurance contributions. Our PRC Legal Advisers have further advised, based on the consultation with the housing fund authority, the housing fund authority would only accept our payments for the outstanding housing fund contributions for our current employees after we first opened our housing fund account with the authority in November 2009. As the aforementioned conditions apply to four employees of our Group, the housing fund authority would only accept our payments for these four employees. The relevant outstanding amounts for their housing fund contributions were RMB6,433 in aggregate. We have paid the sum of RMB6,433 in full to the housing fund authority in July 2010.

## BUSINESS

As advised by our PRC Legal Advisers, under the relevant laws and regulations of the PRC, we may be ordered by the relevant social insurance authority to pay the outstanding social insurance contributions within a prescribed time limit, and a late charge at a daily rate of 0.2% on the outstanding contributions may be imposed if such payment is not made within the prescribed time limit. In respect of the housing fund, we may be ordered by the relevant housing fund authority to pay the outstanding housing fund contributions and a late charge at a daily rate of 0.1% on the outstanding contribution may be imposed on us. However, as the social insurance and housing fund authorities do not allow us to make full payments for the outstanding social insurance and housing fund contributions and we have paid the aforesaid housing fund contributions acceptable by the authority, our PRC Legal Advisers are of the view that the risk of the relevant authority imposing any penalty on our Group is very remote. Our PRC Legal Advisers have however advised that in case an employee of our Group succeeds in labour dispute against us with respect to the outstanding social insurance and housing fund contributions, we may still be required to make such outstanding contributions to such employee, the maximum amount of which was estimated to be RMB8.1 million in aggregate as of 30 April 2010.

Pursuant to a deed of indemnity dated 2 September, 2010 executed by Mr. Guan and Sure Capital in favour of our Group, Mr. Guan and Sure Capital, being our controlling shareholders, have agreed to indemnify our Group, among others, against any payment obligations or penalties imposed by any relevant authorities in relation to such non-compliance with the employee welfare contribution regulations.

Save as disclosed in the prospectus, our PRC legal advisers have advised that we have complied with all the laws and regulations in respect of the payment of employee benefits for all our employees.

### LICENCES AND PERMITS

We are principally engaged in the manufacture and supply of ethylene oxide and surfactants, as well as other chemical products such as ethylene glycol and industrial gases, namely oxygen, nitrogen and argon. We are required to obtain the Certificate of Approval for Production and Storage of Hazardous Chemicals (危險化學品生產、存儲批准證書) issued by Jiaying Administration of Work Safety (嘉興市安全生產監督管理局), the Safety Production Permit (安全生產許可證) issued by Zhejiang Administration of Work Safety (浙江省安全生產監督管理局), the National Production Licence for Industrial Products (全國工業產品生產許可證) issued by the Zhejiang Administration of Quality Supervision, Inspection and Quarantine (浙江省質量監督檢驗檢疫總局), and the Hazardous Chemical Operation Licence (危險化學品經營許可證) issued by Jiaying Administration of Work Safety for our business operation. We are also required to obtain approval from the competent governmental authorities in the PRC for our production projects of ethylene oxide, liquefied industrial gases and surfactants.

## BUSINESS

The following table sets forth the details of the licences and permits obtained by the Group and Sanjiang Honam:

Certificate/Licence	Grantee/licensee	Content of Permission	Grant Date	Expiry Date	Granting Authority
The Certificate of Approval for Production and Storage of Hazardous Chemicals (No. JXAP – F – 0055)	Sanjiang Chemical	Annual production of 60,000 MT of ethylene oxide, 4,440 MT of ethylene glycol, 1,100 MT of liquid oxygen, 500 MT of liquid nitrogen, 2,500 MT of liquid argon, recycling of 50,000 MT of liquid carbon dioxide, storage of 20,000 m <sup>3</sup> of ethylene and 10,000 m <sup>3</sup> of propylene	3 February 2010	Open-end permit	Jiaxing Administration of Work Safety
The Safety Production Permit (No. (ZJ) WH An Xu Zheng Zi [2009] – F – 1340)	Sanjiang Chemical	Annual production of 60,000 MT of ethylene oxide, 4,440 MT of ethylene glycol, 1,100 MT of liquid oxygen, 500 MT of liquid nitrogen, 2,500 MT of liquid argon, recycling 50,000 MT of carbon dioxide (including 5,000 MT for food and beverage uses), storage of 20,000 m <sup>3</sup> of ethylene	20 April 2010	23 December 2012	Zhejiang Administration of Work Safety
The National Production Licence for Industrial Products (No. (Zhe) XK13 – 010 – 00026)	Sanjiang Chemical	Production of industrial oxygen, industrial nitrogen, pure nitrogen, pure argon, industrial liquid carbon dioxide	8 April 2010	14 February 2013	Zhejiang Administration of Quality Supervision, Inspection and Quarantine
The National Production Licence for Industrial Products (No. (Zhe) XK13 – 014 – 00005)	Sanjiang Chemical	Production of ethylene oxide	8 April 2010	5 June 2013	Zhejiang Administration of Quality Supervision, Inspection and Quarantine

## BUSINESS

Certificate/Licence	Grantee/licensee	Content of Permission	Grant Date	Expiry Date	Granting Authority
The Certificate of Approval for Production and Storage of Hazardous Chemicals (No. ZJAP – F – 001610)	Yongming Petrochemical	Production of 60,000 MT of ethylene oxide, 4,400 MT of ethylene glycol (by-product), 1,100 MT of liquid oxygen, 500 MT of liquid nitrogen, 2,500 MT of liquid argon	13 November 2007	Open-end permit	Zhejiang Administration of Work Safety
The Safety Production Permit (No. (ZJ) WH An Xu Zheng Zi [2009] – F – 0937)	Yongming Petrochemical	Annual production of 60,000 MT of ethylene oxide, 1,100 MT of liquid oxygen, 500 MT of liquid nitrogen, 2,500 MT of liquid argon	30 July 2009	29 July 2012	Zhejiang Administration of Work Safety
The National Production Licence for Industrial Products (No. (Zhe) XK13 – 010 – 00031)	Yongming Petrochemical	Production of industrial oxygen, industrial nitrogen, pure nitrogen, pure argon	21 April 2010	20 April 2015	Zhejiang Administration of Quality Supervision, Inspection and Quarantine
The National Production Licence for Industrial Products (No. (Zhe) XK13–014–00009)	Yongming Petrochemical	Production of ethylene oxide	21 April 2010	20 April 2015	Zhejiang Administration of Quality Supervision, Inspection and Quarantine
The Hazardous Chemical Operation Licence (No. Jia An Jian Jing (Yi) Zi [2007] A91005)	Sanjiang Trading	Wholesale (direct selling) of ethylene oxide and ethylene	31 October 2007	17 October 2010 ( <i>Note</i> )	Jiaxing Administration of Work Safety
The Certificate of Approval for Production and Storage of Hazardous Chemicals (No. JXAP – F – 0064)	Sanjiang Honam	Annual production of 200,000 MT of ethylene oxide	11 May 2010	Open-end permit	Jiaxing Administration of Work Safety

*Note:* As of the Latest Practicable Date, Sanjiang Trading had applied to Jiaxing Administration of Work Safety for the renewal of its Hazardous Chemical Operation Licence. We expect to obtain the renewed licence in September 2010.

Upon obtaining the consent from the Economic Development Bureau of Jiaxing Port Economic Development Zone (嘉興港區經濟發展局) and the Administration of Work Safety of Jiaxing Port Economic Development Zone (嘉興港區安全生產監督管理局) in December 2005, Sanjiang Chemical commenced its trial production of ethylene oxide and industrial gases in January 2006 and obtained the Safety Production Permit in December 2006. Sanjiang Chemical however had not applied for the National Production Licence for Industrial Products after obtaining the Safety Production Permit in a timely manner due to its inadvertence in updating itself of the latest development of the laws and regulations applicable to our Group. Sanjiang Chemical subsequently obtained the said production licences for the production of industrial gases and ethylene oxide in February 2008 and June 2008 respectively. According to the written confirmation issued by Zhejiang Quality and Technical Supervision Bureau (浙江省質量技術監督局) in September 2008, the aforesaid production prior to the issuance of National Production Licence for Industrial Products would not be regarded as production without proper licences. As advised by our PRC Legal Advisers, Zhejiang Quality and Technical Supervision Bureau is the proper authority to issue the aforesaid confirmation and such confirmation is legal and valid. As such, our PRC Legal Advisers are of the view that no penalty will be imposed on our Group by the relevant authorities for the aforesaid production prior to the issuance of such production licences.

Upon obtaining the consent from Jiaxing Administration of Work Safety in December 2008, Yongming Petrochemical commenced its trial production of ethylene oxide and industrial gases in December 2008 and obtained the Safety Production Permit in July 2009. Yongming Petrochemical first applied for the National Production Licence for Industrial Products in August 2009 but was informed by the relevant authority that its application could not be processed due to its misunderstanding of some application requirements. Yongming Petrochemical therefore amended and resubmitted its application which was acknowledged by the relevant authority in March 2010. Yongming Petrochemical obtained the said production licences for the production of ethylene oxide and industrial gases in April 2010. Jiaxing Quality and Technical Supervision Bureau (嘉興市質量技術監督局) issued a written confirmation on 30 April 2010 confirming that Yongming Petrochemical was entitled to commence production after submission of the application for National Production Licence for Industrial Products. The Quality and Technical Supervision Bureau of Jiaxing Port Economic Development Zone (嘉興市質量技術監督局港區分局) further confirmed on 5 May 2010 that Yongming Petrochemical has been complying with the laws and regulations concerning the quality and technical supervision and no illegal action in regard thereof has been found since its establishment. As advised by our PRC Legal Advisers, Jiaxing Quality and Technical Supervision Bureau and the Quality and Technical Supervision Bureau of Jiaxing Port Economic Development Zone are the proper authorities to issue the aforesaid confirmations and such confirmations are legal and valid. As such, our PRC Legal Advisers are of the view that no penalty will be imposed on our Group by the relevant authorities for the aforesaid production prior to the issuance of such production licences.

Yongming Petrochemical constructed its ethylene oxide production facilities with a designed annual production capacity of 120,000 MT (being one 60,000 MT project completed in December 2008 and one 60,000 MT project which is currently under construction and expected to complete by early 2011) as such ethylene oxide production facilities were considered by us as supplementary to Yongming Petrochemical's surfactant production projects. However, our PRC Legal Advisers have advised that such construction did not comply with the then applicable laws and regulations of the PRC because Yongming Petrochemical did not seek separate approval for the construction of the ethylene oxide facilities. In February 2010, Yongming Petrochemical obtained an approval from Jiaxing Economic and Trade Commission (嘉興市經濟貿易委員會) pursuant to which the authority approved Yongming Petrochemical's application for increasing its designed annual production capacity of ethylene oxide

from 120,000 MT to 220,000 MT. As advised by our PRC Legal Advisers, Jiaxing Economic and Trade Commission is the proper authority to approve such application, such approval is legal and valid and ratifies the construction of Yongming Petrochemical's ethylene oxide production facilities prior to the issuance of such approval. As such, our PRC Legal Advisers are of the view that Yongming Petrochemical has complied with all statutory approval procedures for its ethylene oxide project with a designed annual production capacity of 220,000 MT.

Among our current designed annual production capacity of 120,000 MT of ethylene oxide, the annual capacity of Sanjiang Chemical is 60,000 MT while the annual capacity of Yongming Petrochemical is 60,000 MT.

Sanjiang Chemical was granted an approval for its ethylene oxide production project with an annual capacity of 60,000 MT in 2003. The Industrial Restructuring Catalogue, the Production Licence Notice and the Land Catalogue came into effect on 2 December 2005, 9 November 2006 and 12 December 2006 respectively, and have no retrospective effect to the said project which was in conformity with the then effective laws and regulations of the PRC. As mentioned above, Sanjiang Chemical subsequently obtained the National Production Licence for Industrial Products and a certificate issued by Zhejiang Quality and Technical Supervision Bureau confirming the validity of its production prior to the issuance of National Production Licence for Industrial Products in 2008.

Yongming Petrochemical's ethylene oxide production project with an annual capacity of 60,000 MT is the first phase of its ethylene oxide production project with a total annual capacity of 220,000 MT which was approved by the local government in 2010. The ethylene oxide production expansion project with respect to the increase of Yongming Petrochemical's annual production capacity by 160,000 MT (being 60,000 MT and 100,000 MT respectively) are the second and third phases of the aforementioned project with a total annual capacity of 220,000 MT. As such, our PRC Legal Advisers have advised that Yongming Petrochemical's production expansion plan to increase its annual production capacity of ethylene oxide by 160,000 MT will not be banned by the PRC government. Since the said 220,000 MT project meets the requirements of the current laws and regulations of the PRC, as mentioned above, Yongming Petrochemical obtained the National Production Licence for Industrial Products and two certificates issued by Jiaxing Quality and Technical Supervision Bureau and the Quality and Technical Supervision Bureau of Jiaxing Port Economic Development Zone confirming the validity of its production prior to the issuance of National Production Licence for Industrial Products in 2010.

Currently, only Sanjiang Chemical and Yongming Petrochemical of our Group are engaged in the manufacture of ethylene oxide. Our PRC Legal Advisers have further advised that, assuming Sanjiang Chemical and Yongming Petrochemical would like to expand the annual production capacity of ethylene oxide in the future, Sanjiang Chemical would need to increase its annual production capacity by a minimum of 140,000 MT to 200,000 MT in order to comply with the current laws and regulations applicable to us, while Yongming Petrochemical would be permitted to expand beyond its currently approved annual production capacity of 220,000 MT. However, if Sanjiang Chemical and Yongming Petrochemical would like to construct new ethylene oxide production facilities in other new locations, such expansion must reach a minimum annual production capacity of 200,000 MT in order to obtain the relevant approval from the government authorities.

Save as disclosed above and in other paragraphs of this prospectus, our PRC Legal Advisers have advised that we are in compliance with all applicable laws and regulations of the PRC in all material respects, and have obtained all relevant and necessary licences, permits, certificates and approvals required for our business operation from the proper issuing authorities.

## BUSINESS

We have adopted relevant procedures to ensure the compliance with the applicable laws and regulations of the PRC. Mr. Zhang Gui, the head of the administration department of our Company has been appointed as head of legal and compliance for a term of one year since July 2010 to handle all legal and compliance matters of our Group. Such appointment will be renewed automatically upon expiry. In addition, we have appointed PRC legal advisers to advise us on legal and compliance matters in relation to our Group's operation. We have adopted a compliance procedure manual to standardise all the legal and compliance internal control procedures. Mr. Zhang will be responsible for timely updating the manual when there is any change in laws and regulations applicable to our Group.

### CERTIFICATES AND AWARDS

As of the Latest Practicable Date, we had obtained a number of certificates and awards including the following which our Directors consider are the more important ones.

<b>Awards</b>	<b>Awarded by</b>	<b>Award month and year</b>
十強企業 (Top Ten Enterprises)	中共嘉興市委 (The Communist Party of China Jiaxing Municipal Party Committee) and 嘉興市人民政府 (Jiaying Municipal People's Government)	February 2008
ISO9001 Quality Management System Certification Certificate	Beijing United Intelligence Certification Co., Ltd.	June 2008
ISO14001:24 Environmental Management Systems Certification Certificate	Beijing United Intelligence Certification Co., Ltd.	July 2008
嘉興市高新技術企業 (Jiaying City High and New Technology Enterprise)	嘉興市人民政府 (Jiaying Municipal People's Government)	November 2008
十佳工業企業 (Top Ten Industrial Enterprises)	中共嘉興市委嘉興港區開發建設管理委員會 (The Communist Party of China Jiaying Municipal Party Committee Jiaying Port Economic Development Zone Working Committee of Development and Construction) and 嘉興港區開發建設管理委員會 (Jiaying Port Economic Development Zone Management Committee of Development and Construction)	February 2009

## BUSINESS

<b>Awards</b>	<b>Awarded by</b>	<b>Award month and year</b>
安全生產先進集體 (Advanced Production Safety Group)	嘉興港區安全生產工作委員會 (Jiaxing Port Economic Development Zone Working Committee of Production Safety)	February 2009
十強納稅企業 (Top Ten Tax Paying Enterprises)	中共嘉興市委嘉興港區開發建設管理委員會 (The Communist Party of China Jiaxing Municipal Party Committee Jiaxing Port Economic Development Zone Working Committee of Development and Construction) and 嘉興港區開發建設管理委員會 (Jiaxing Port Economic Development Zone Management Committee of Development and Construction)	February 2009
十強生產性投入企業 (Top Ten Production Input Enterprises)	中共嘉興市委嘉興港區開發建設管理委員會 (The Communist Party of China Jiaxing Municipal Party Committee Jiaxing Port Economic Development Zone Working Committee of Development and Construction) and 嘉興港區開發建設管理委員會 (Jiaxing Port Economic Development Zone Management Committee of Development and Construction)	February 2009
浙江省科技型中小企業證書 (Zhejiang Province Technology Medium/Small Sized Enterprise)	浙江省科學技術廳 (Science and Technology Department of Zhejiang Province)	October 2009
十強納稅企業 (Top Ten Tax Paying Enterprise)	中共嘉興市委嘉興港區開發建設管理委員會 (The Communist Party of China Jiaxing Municipal Party Committee Jiaxing Port Economic Development Zone Working Committee of Development and Construction) and 嘉興港區開發建設管理委員會 (Jiaxing Port Economic Development Zone Management Committee of Development and Construction)	March 2010

## BUSINESS

Awards	Awarded by	Award month and year
十佳工業企業 (Top Ten Industrial Enterprise)	中共嘉興市委嘉興港區開發建設管理委員會 (The Communist Party of China Jiaxing Municipal Party Committee Jiaxing Port Economic Development Zone Working Committee of Development and Construction) and 嘉興港區開發建設管理委員會 (Jiaxing Port Economic Development Zone Management Committee of Development and Construction)	March 2010

### COMPETITION

According to the SAI Report, the domestic ethylene oxide supply market currently consists of several state-owned and privately-owned corporations, including China Petroleum and Chemical Corporation (also known as Sinopec) and China National Petroleum Corporation (also known as CNPC). As at 30 April 2010, the domestic ethylene oxide supply market was largely dominated by the two aforementioned state-owned suppliers. Our Directors consider that with respect to our production of ethylene oxide, we face competition from these two large-scale state-owned petrochemical companies in terms of cost effectiveness, product pricing and production scale. However, due to the flammable and explosive nature of ethylene oxide in both its gaseous and liquid forms and hence a relatively high cost of transportation, delivery of ethylene oxide has its geographical limitation. Our Directors consider that there is limited competition from the two large-scale state-owned petrochemical companies as, so far as the Directors are aware, a majority part of the ethylene oxide produced by these two state-owned petrochemical companies is utilised in-house for further processing in downstream products such as ethylene glycol. The Directors also consider that privately-owned ethylene oxide or surfactant manufacturing petrochemical companies do not pose significant threat to our business as we have significant size advantage over these privately-owned competitors.

With respect to the minimum production capacity requirement of 200,000 MT per annum for ethylene oxide set out in the Industrial Restructuring Catalogue, the Production Licence Notice and the Land Catalogue (the “**Ethylene Oxide Rules**”), such requirement only applies to newly established production facilities after the implementation of the Ethylene Oxide Rules between 2005 and 2006 without any retrospective effect. Therefore, ethylene oxide production facilities which existed before the implementation of the Ethylene Oxide Rules are not affected by such requirement. As such, the implementation of the Ethylene Oxide Rules should not lead to any consolidation among existing small-scale manufacturers that will change the competitive landscape of the industry. Besides, according to the SAI Report, save for Sinopec, CNPC and us, there are currently only two other ethylene oxide manufacturers in the PRC with a designed annual production capacity of 20,000 MT and 10,000 MT respectively. Given the small scale production capacity of these manufacturers, even if there is consolidation between them or a buyout by larger scale manufacturers, either voluntarily or by way of future governmental directives to phase out small-scale manufacturers, the competition amongst the existing competitors in the market will not be intensified. In view of the aforesaid, our Directors believe that the risk of potential consolidation and future significant change in competitive landscape in the short term is very remote.

## BUSINESS

According to the SAI Report, in 2009, the domestic AEO surfactant supply market in China was dominated by 20 domestic suppliers, with their products accounting for an aggregate of 78% of the total domestic supply. The remaining 22% was mainly supplied by small surfactants producers that manufacture AEO surfactants in very low quantities. Our Directors consider that with respect to our production of surfactants, we compete with our competitors in terms of product and service quality, production efficiency, cost effectiveness, responsiveness to customers' requirements and market trends.

Our Directors believe that we have competitive strengths as set forth in the paragraph headed "Competitive strengths" above that enable us to compete with our industry participants and to continue our business expansion.

## ENVIRONMENT

### Relevant environmental laws and regulations governing our business and operation

As advised by our PRC Legal Advisers, our business and operation are governed by the following relevant environmental laws and regulations over the past years:

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the "Environmental Protection Law"), which was promulgated by the SCNPC and came into effect on 26 December 1989, sets forth the legal framework for environmental protection in China. The Ministry of Environmental Protection (環境保護部) is responsible for overall supervision and administration of nationwide environmental protection work, while local environmental protection authorities at the county level and above are responsible for environmental protection work within their respective jurisdictions.

According to the Environmental Protection Law, an environmental impact report for a construction project assessing the pollution and environmental impact of the construction project, setting forth prevention and treatment measures and having been approved by the relevant environmental protection authorities prior to construction is required. Environmental protection facilities must be simultaneously designed, built and put into operation with the major facilities of those construction projects. Construction projects are not permitted to be put into use until the environmental protection facilities have passed inspections by the environmental protection authorities. Environmental protection facilities installed may not be dismantled or idled without authorisation. Where it is necessary to dismantle or idle such installations, prior approval must be obtained from the environmental protection authorities where such installations are located.

Enterprises engaging in operations that affect environmental conditions are required to adopt certain measures and systems in their operations to effectively prevent and control pollution caused by waste gas, water and solids as well as noise. Enterprises that discharge pollutants must report to and register with the Ministry of Environmental Protection or their local counterparts. Enterprises discharging pollutants shall pay discharge fees in accordance with the applicable regulations.

A person or an enterprise failing to comply with the Environmental Protection Law may be subject to various penalties imposed by the relevant environmental protection authorities, depending on the circumstances of each case and the extent of contamination. Penalties may include warnings, fines, imposition of deadlines for remedying the contamination, orders to suspend production or use, orders to re-install contamination prevention and treatment facilities that have been removed without permission or left unused, orders to close down the enterprises, or orders to compensate any parties affected by the contamination. In case of serious violations, the responsible persons may also be subject to criminal liabilities.

The Regulations on the Administration of Environmental Protection for Construction Project (《建設項目環境保護管理條例》) were promulgated by the State Council and came into effect on 29 November 1998. These regulations are formulated specifically to govern the environmental protection issues that may arise in connection with construction projects that may cause pollution and damage the ecological environment.

The Law of the PRC on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》) promulgated by the SCNPC on 5 September 1987 with the latest amendment which came into effect on 1 September 2000, the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) promulgated by the SCNPC on 11 May 1984 with the latest amendment which came into effect on 1 June 2008, the Law of the PRC on the Prevention and Control of Environmental Pollution by Noise (《中華人民共和國環境噪聲污染防治法》) promulgated by the SCNPC on 29 October 1996 and which came into effect on 1 March 1997 and the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) promulgated on 30 October 1995 with the latest amendment which came into effect on 1 April 2005 set out, respectively, the regulations governing the prevention and control of air, water, noise and solid waste pollution in order to protect and improve the environment, safeguard public health and promote economic and social development. In particular, these laws stipulate concrete requirements for prevention and control of air, water, noise and solid waste pollution for a variety of activities, including residential, production and operation activities.

Enterprises failing to comply with the provisions of the laws on the prevention and control of air, water, noise or solid waste pollution may be subject to warnings, fines, suspension of operations and cessation of business, as determined by the relevant environmental protection authorities. Enterprises that cause air, water, noise or solid waste pollution are obligated to eliminate the pollution and are required to compensate the parties directly affected by the pollution for their losses. Criminal liabilities may also be imposed on the responsible persons for serious violations.

### **Environmental protection measures and pollution controls**

Our Directors have recognised the global trend of growing awareness of environmental protection in terms of both government regulations and customer preference. We consider ourselves a “green” manufacturing company and place strong emphasis on environmental protection. We have made substantial investments to adopt environmental protection measures and pollution controls against carbon dioxide, waste water and solid waste produced in the course of our production process. We have maintained production technologies and process-integrated environmental protection measures by adopting an environmental management system to reduce the impact of pollutant emissions on the environment. We have attained the ISO14001:2004 Environment Management Systems Certification Certificate issued by Beijing United Intelligence Certification Co., Ltd. We have 14 designated personnel

for our production plants who are responsible for, among others, formulating and implementing our environmental measures. Mr. Niu Yingshan, one of our executive Directors, is responsible for the management of environmental protection of our Group. From February 2009 to January 2010, Mr. Niu was appointed by Jiaxing Environmental Protection Bureau (嘉興市環境保護局) as an expert of Jiaxing Environmental Protection Expert Service Group. We believe that we are equipped with the necessary experience and resources to comply with the increasingly stringent environmental protection requirements. Our Directors believe that such environmental protection measures and controls have by far exceeded the requirements of the relevant PRC environmental protection laws and regulations. Brief details of our environmental protection measures and controls are set forth below:

**A.     *Carbon dioxide***

Carbon dioxide is generated during the production process of ethylene oxide. We have installed two sets of carbon dioxide recollecting device which have the capacity to absorb approximately 30,000 MT and 20,000 MT of carbon dioxide per year respectively in our Jiaxing Production Plant. The carbon dioxide absorbed is then sold for recycling purpose.

**B.     *Waste water***

We have installed water treatment facilities at our Jiaxing Production Plant and Xiaoshan Production Plant respectively which have the respective capacities of treating 2,000 MT and 1,300 MT of waste water per day to treat all waste water generated during the production process of our products. Such treated waste water is recycled and used for cooling of reactants in the production of both ethylene oxide and surfactants.

**C.     *Solid waste***

Solid catalyst waste produced during our production process is collected by us and sold for recycling purpose.

In light of the aforesaid environmental protection measures and controls taken by our Group, our Directors believe that the environment is not adversely affected as a result of our operation. During the Track Record Period, our annual expenditure in respect of environmental matters were approximately RMB1.6 million, RMB0.6 million, RMB8.7 million and RMB0.1 million respectively. The significant increase in environmental costs in 2009 as compared with those in 2008 was mainly attributable to our investment in the installation of the abovementioned water treatment facilities of approximately RMB7.6 million at our Jiaxing Production Plant and other auxiliary facilities and related staff trainings. We estimate that RMB1.3 million will be expended as environmental costs for the full maintenance of our production facilities in 2010 and RMB3.2 million will be expended for our third phase of the ethylene oxide production project to be completed in 2011.

Our PRC Legal Advisers have advised that the only licence or permit in relation to the environmental matters applicable to us is the Pollutant Discharge Licence (排污許可證). At our Jiaxing Production Plant, as the relevant local authority in Jiaxing, Zhejiang Province of the PRC is in the process of establishing the system for the issuance of the Pollutant Discharge Licences to the companies located in the Jiaxing Port Economic Development Zone, Sanjiang Chemical and Yongming Petrochemical have not obtained the Pollutant Discharge Licences as of the Latest Practicable Date. However, Sanjiang Chemical and Yongming Petrochemical can still discharge the waste water into the governmental water

## **BUSINESS**

treatment centre as previously agreed. As advised by our PRC Legal Advisers, there is no legal impediment for Sanjiang Chemical and Yongming Petrochemical to obtain the Pollutant Discharge Licence. At our Xiaoshan Production Plant, Hangzhou Haoming ceased its production of surfactants and other products which were in direct competition with us, after Hangzhou Sanjiang acquired Hangzhou Haoming's ethylene oxide trading and surfactant manufacture and sale businesses in April 2010. Upon completion of the acquisition, Hangzhou Sanjiang prepared for the transfer of the Pollutant Discharge Licence from Hangzhou Haoming and obtained the licence in July 2010. As advised by our PRC Legal Advisers, such licence is legal and valid and so far as our PRC Legal Advisers are aware, there is no legal impediment for renewal of such licence.

Save as disclosed above, we have fully complied with the relevant PRC environmental protection laws and regulations since our commencement of operation. We have been subject to the inspections by the local governmental authority from time to time. Up to the Latest Practicable Date, we were not subject to any material fine or claim arising from non-compliance with environmental laws and regulations or any citation for our environmental measures. We are committed to the continued compliance with the relevant PRC environmental protection laws and regulations.

## **INSURANCE**

We maintain insurance policies for all of our properties, manufacturing facilities, plant and machinery, equipment and inventories against damage caused by accidents. We also maintain insurance policies for our employees, including pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance.

Taking into account (i) we have adopted stringent safety precaution measures and has fully complied with the relevant rules and regulations in the PRC; and (ii) there had not been any major work accidents causing material health or safety issues since the establishment of each of the members of our Group, our Directors are of the view that we have maintained sufficient insurance coverage for our current operations based on their knowledge of the industry practice and experience.

During the Track Record Period and up to the Latest Practicable Date, we had not received any product liability claims.

## **INTELLECTUAL PROPERTY**

As of the Latest Practicable Date, we had not applied for any patent in respect of our production know-how.

We have applied for registration of a number of trademarks in the PRC and Hong Kong. Please refer to the section headed "Further information about the business of the Company – Intellectual property rights of the Group" in Appendix VII to this prospectus.

## **LEGAL COMPLIANCE AND PROCEEDINGS**

We have established and maintained a legal compliance procedure for the purpose of ensuring that, among other things, our activities are in compliance with the applicable PRC laws and regulations promulgated by the State, Provincial, Municipal governments and our employees are aware of their legal responsibilities.

We set out below the non-compliances and irregularities relating to our operations during the Track Record Period:

- (1) We failed to fully contribute the social insurance and housing fund for our employees during the Track Record Period. We estimate that the aggregate unpaid amounts by our Group to the social insurance and housing fund authorities were approximately RMB1.7 million, RMB2.4 million, RMB3.0 million and RMB1.0 million, respectively during the Track Record Period and relevant provisions have been made in our Group's consolidated accounts. In hope to settle the outstanding social insurance and housing fund contributions, we and our PRC Legal Advisers have consulted the local social insurance and housing fund authorities in Jiaxing, Zhejiang Province of the PRC respectively. Our PRC Legal Advisers have advised, based on such consultation, that the social insurance authority would not accept our payments for the outstanding social insurance contributions, and the housing fund authority would only accept our payments of RMB6,433 for the outstanding housing fund contributions. We have therefore paid the sum of RMB6,433 in full to the housing fund authority in July 2010. Based on the above, our PRC Legal Advisers are of the view that the risk of the relevant authorities imposing any penalty on our Group is very remote. Our PRC Legal Advisers have however advised that in case an employee of our Group succeeds in labour dispute against us with respect to the outstanding social insurance and housing fund contributions, we may still be required to make such outstanding contributions to such employee, the maximum amount of which was estimated to be RMB8.1 million in aggregate as of 30 April 2010. Nonetheless, our controlling shareholders have agreed to indemnify our Group against any payment obligations or penalties imposed by any relevant authorities in relation to the non-compliance with the employee welfare contribution regulations.

Please refer to the subsection headed "Employees" in this section of the prospectus for further details.

- (2) As of the Latest Practicable Date, we did not possess the building ownership certificates for five properties with a total gross floor area of approximately 600 square metres. As the aggregate area of the five properties represents approximately 1.85% of the total area of properties our Group occupies and these five ancillary properties are not production related, our Directors consider that the lack of building ownership certificates in respect of the aforesaid properties are not crucial to us and will not have a material impact on our operation. We will demolish the five properties if ordered by the relevant government authorities. The demolishing costs are estimated to be approximately RMB50,000, which, our Directors consider, would have insignificant impact on our financial position. It is not our current intention to relocate to other properties after the demolition.

Please refer to the subsection headed "Production capacities, production plant and storage facility – Jiaxing production plant" in this section of the prospectus for further details.

- (3) Sanjiang Chemical and Yongming Petrochemical commenced their production of ethylene oxide prior to obtaining the National Production Licence for Industrial Products, and obtained the said production licences in June 2008 and April 2010 respectively. According to the certificates subsequently issued by the relevant government authorities, the authorities confirmed the validity of production of Sanjiang Chemical and Yongming Petrochemical prior to the issuance of the National Production Licence for Industrial Products. As such, our PRC Legal Advisers have advised that no penalty will be imposed on our Group by the relevant authorities.

Please refer to the subsection headed “Licences and permits” in this section of the prospectus for further details.

- (4) During the Track Record Period, Yongming Petrochemical leased some of its office premises to Sanjiang Trading, Guanlang and Sanjiang Honam for office use respectively. Hangzhou Haoming leased some of its production premises to Hangzhou Sanjiang for production use. The lease agreements for the aforesaid leases have not been registered with the relevant authorities. Our PRC Legal Advisers have advised that the non-registration of the lease agreements does not affect the validity of the lease agreements. However, Yongming Petrochemical and Hangzhou Haoming, as the lessors, may be subject to a fine for non-registration of the lease agreements.
- (5) During the Track Record Period, we made advances to some Independent Third Parties out of our commercial considerations having regard to the risks of non-recoverability and interest earned. Some advances were interest-bearing whereas some were interest-free. Our PRC Legal Advisers have advised that the advances to Independent Third Parties did not comply with the relevant PRC laws and regulations. As a result, the principal amount of the advances should be returned to the lender and the interest earned (if any) could be confiscated by the relevant authority. In addition, a fine equivalent to one to five times of the interest earned (if any) may be imposed on the lender. Based on the interest earned from the advances made to Independent Third Parties, the maximum penalty for our Group would be approximately RMB24 million. Our controlling shareholders have agreed to indemnify our Group against any payment obligations or penalties imposed by any relevant authorities in relation to such advances made to Independent Third Parties. As the advances to Independent Third Parties have been fully settled as at 30 April 2010 and our Group will not make advances to Independent Third Parties in the future, our PRC Legal Advisers have advised that the risk of the relevant authority imposing penalty on our Group will be very remote.

Please refer to the section headed “Financial information – Analysis of financial positions – Prepayments, deposits and other receivables” in this prospectus for further details.

## **BUSINESS**

We have adopted relevant procedures to ensure the compliance with the applicable laws and regulations of the PRC. Mr. Zhang Gui, the head of the administration department of our Company has been appointed as head of legal and compliance for a term of one year since July 2010 to handle all legal and compliance matters of our Group. Such appointment will be renewed automatically upon expiry. In addition, we have appointed PRC legal advisers to advise us on legal and compliance matters in relation to our Group's operation. We have adopted a compliance procedure manual to standardise all the legal and compliance internal control procedures. Mr. Zhang will be responsible for timely updating the manual when there is any change in laws and regulations applicable to our Group.

As of the Latest Practicable Date, we were not involved in any material litigation, arbitration or administrative proceedings that could have a material adverse effect on our financial condition or results of operations.

## **CONTROLLING SHAREHOLDERS**

Immediately following completion of the Global Offering and the Capitalisation Issue, Sure Capital, which is beneficially controlled by Mr. Guan, will be beneficially interested in approximately 45.51% of our issued share capital (assuming that the Over-allotment Option is not exercised and without taking into account Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme). Sure Capital and Mr. Guan will be our controlling shareholders.

Neither Sure Capital nor Mr. Guan controls or conducts any business which competes, or is likely to compete, either directly or indirectly, with our business. Moreover, as confirmed by our Directors, we will not obtain any financial assistance from our controlling shareholders in any form after the Listing. Accordingly, we do not consider that there will be any independence issues, and we are satisfied that we are capable of carrying on our business independent of our controlling shareholders and their associates after Listing. Accordingly, the Joint Sponsors are satisfied as to the Company's independence from its controlling shareholders after the Listing.

## **HANGZHOU HAOMING**

Hangzhou Haoming is a company owned as to 60% by Mr. Guan and 20% by Ms. Han. As part of the Reorganisation, Hangzhou Sanjiang was set up to acquire from Hangzhou Haoming its ethylene oxide trading and surfactant manufacture and sale businesses in April 2010. As Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han, the results of the business acquired from Hangzhou Haoming have been reflected in our Group's results prior to 31 March 2010 by using merger accounting. Following completion of the said acquisition by Hangzhou Sanjiang, Hangzhou Haoming ceased the businesses of ethylene oxide trading and manufacture and sale of surfactants and is only an investment holding company of its subsidiaries which are principally engaged in the businesses of supply and trading of desalinated water and steam and the production and trading of chlorine gas, sulfuric acid, magnesium sulphate and synthetic materials. Pursuant to an agreement dated 1 April 2010 and entered into between Hangzhou Sanjiang as tenant and Hangzhou Haoming as landlord, Hangzhou Haoming has agreed to lease and Hangzhou Sanjiang has agreed to take the lease of two industrial buildings for production of surfactants in Xiaoshan District. Please refer to the section headed "Connected transactions" in this prospectus for further details.

## **JIAHUA INDUSTRIAL PARK CO**

Jiahua Industrial Park Co is a company owned as to approximately 87.86% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han. Jiahua Industrial Park Co is principally engaged in the businesses of supply and trading of desalinated water and steam and the production and trading of chlorine gas and sulfuric acid. During the Track Record Period, Sanjiang Chemical purchased desalinated water, low pressure steam and high pressure steam from Jiahua Industrial Park Co for production of ethylene oxide or surfactants. These transactions are expected to continue after Listing. Please refer to the section headed "Connected transactions" in this prospectus for further details.

Jiaxing Rewang is a company owned as to 40% by Jiahua Industrial Park Co. During the Track Record Period, Jiaxing Rewang supplied low pressure steam to Sanjiang Chemical for the vapourisation of liquid ethylene stored in our ethylene storage tank and be transported to our production plant. These transactions are expected to continue after Listing. For further details, please refer to the section headed "Connected transactions" in this prospectus.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### NON-COMPETITION UNDERTAKING

In order to ensure that our controlling shareholders will not engage in any business undertaking in competition with our Group, Mr. Guan and Sure Capital (the “**Covenantors**”) have given an irrevocable non-competition undertaking in favour of our Company (for itself and as trustee for its subsidiaries from time to time) pursuant to which, each of the Covenantors has irrevocably, unconditionally and severally undertaken with our Company on a joint and several basis that, among others, at any time during the Relevant Period (as defined below), each Covenantor shall, and shall procure that his/its associates (excluding the Group) shall:

- (i) save for the Excluded Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by our Group (the “**Restricted Business**”), including but not limited to the manufacture and sales of ethylene oxide and AEO surfactants, the provision of ethylene oxide and surfactants processing services and the manufacture and sales of other products of our Group from time to time (the “**Restricted Products**”);
- (ii) not solicit any existing or then existing employee of our Group for employment by him/it or his/its associates;
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to his/its knowledge in his/its capacity as our controlling shareholder for any purpose including competing with the Restricted Business; and
- (iv) in respect of any order or any part of it undertaken or proposed to be undertaken by him/it or his/its associates for the sales, distribution, and/or supply of any Restricted Products, unconditionally use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of our Group for the sales and supply of the Restricted Products under the relevant order.

For the above purposes:

- (A) the “**Relevant Period**” means the period commencing from the Listing Date and shall expire upon the earlier of the dates below:
  - (a) the date on which the relevant Covenantor ceases to be our controlling shareholder for the purpose of the Listing Rules; or
  - (b) the date on which the Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange;
- (B) the “**Excluded Business**” means any of the following business:
  - (a) the direct or indirect investments of the Covenantor and/or his/its associates in any member of our Group; or
  - (b) the production of the Restricted Products by the Covenantor and/or his/its associates for supply and/or provision of the Restricted Products to any member of our Group.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Under the non-competition undertaking, the Covenantors have also jointly and severally undertaken to our Group to allow the Directors, their representative and the auditors of our Group to have sufficient access to the records of the Covenantors and/or the subsidiaries of Sure Capital to ensure their compliance with the terms and conditions of the non-competition undertaking.

### CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from our controlling shareholders and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking by the Covenantors under the non-competition undertaking set out in the paragraph headed “Non-competition undertaking” in this section;
- (ii) the Covenantors undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the non-competition undertaking;
- (iii) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the undertaking of the Covenantors under the non-competition undertaking set out in the paragraph headed “Non-competition undertaking” in this section, in the annual reports of our Company; and
- (iv) the Covenantors will make an annual declaration in compliance with their undertaking under the non-competition undertaking in the annual reports of our Company.

## CONNECTED TRANSACTIONS

### CONTINUING CONNECTED TRANSACTIONS

Upon Listing, the transactions set forth below will constitute continuing connected transactions (as defined in the Listing Rules) of our Company.

#### (A) Relationship between our Group and our connected persons

The relevant connected persons, with whom certain members of our Group have entered into continuing connected transactions, are as follows:

- (1) Jiahua Industrial Park Co: Jiahua Industrial Park Co is owned as to approximately 87.86% by Jiahua, which is ultimately controlled by Mr. Guan and Ms. Han, being executive Directors of our Company. Jiahua Industrial Park Co is an associate of Mr. Guan and Ms. Han and is thus a connected person of our Company under Rule 14A.11(4) of the Listing Rules.
- (2) Hangzhou Haoming: Hangzhou Haoming is owned as to 60% by Mr. Guan and 20% by each of Ms. Han and Mr. Han Jianping, all being executive Directors of our Company. Hangzhou Haoming is an associate of Mr. Guan and is thus a connected person of our Company under Rule 14A.11(4) of the Listing Rules.
- (3) Jiaying Rewang: Jiaying Rewang is owned as to 40% by Jiahua Industrial Park Co, 40% by Zhapu Construction and 20% by an Independent Third Party. As Jiaying Rewang is an associate of Jiahua Industrial Park Co, and Jiahua Industrial Park Co is an associate of Mr. Guan and Ms. Han, being executive Directors of our Company, Jiaying Rewang is therefore deemed to be a connected person of our Company by virtue of Rule 14A.06 of the Listing Rules.

Under the Listing Rules, for so long as Jiahua Industrial Park Co, Hangzhou Haoming and/or Jiaying Rewang remain as connected persons of our Company, the following transactions between our Group on one part and Jiahua Industrial Park Co, Hangzhou Haoming or Jiaying Rewang on the other part would constitute continuing connected transactions of our Company upon Listing.

#### (B) Continuing connected transactions exempt from reporting, annual review, announcement and independent shareholders' approval requirements

##### (1) Leasing of industrial building from Hangzhou Haoming

###### (a) Tenancy Agreement

Pursuant to an agreement (the “**Tenancy Agreement**”) dated 1 April 2010 and entered into between Hangzhou Sanjiang as tenant and Hangzhou Haoming as landlord, Hangzhou Haoming has agreed to lease and Hangzhou Sanjiang has agreed to take the lease of (i) an industrial building with gross floor area of about 5,980.96 square metres situated at Shanmozhi Village, Xinjie Town, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC (the “**Property One**”); and (ii) an industrial building with gross floor area of about 2,331 square metres situated at Shanmozhi Village, Xinjie Town, Xiaoshan District, Hangzhou, Zhejiang Province, the PRC (the “**Property Two**”, collectively with the Property One are referred to as the “**Properties**”). The Properties are used by our Group for production of surfactants in Xiaoshan District.

## CONNECTED TRANSACTIONS

### Rental

For the initial three years from 1 April 2010 to 31 March 2013 during the terms of the lease of the Properties, the annual rent payable by our Group is RMB800,000 for the Property One and RMB400,000 for the Property Two. For every three-year period thereafter, the rent payable by our Group for each of the Properties will be the lower of (i) the average of the rents in the last three-year period in the property rental market of the place at which the Properties are situated (which shall be determined by reference to the valuation report to be issued by an independent qualified property valuer jointly appointed by the parties) and (ii) the then prevailing market rent.

The annual rents above were arrived at after arm's length negotiation between the parties and determined by reference to the market rent of the Properties.

DTZ Debenham Tie Leung Limited, the property valuer of our Company, considers the annual rents above are fair and reasonable and consistent with the prevailing market rents for similar properties in similar locations.

### Term

The term of the lease of the Property One under the Tenancy Agreement commenced on 1 April 2010 and will expire on 31 December 2016 with a right of our Group to enter into a renewal agreement with Hangzhou Haoming in respect of the lease of the Property One.

The term of the lease of the Property Two commenced on 1 April 2010 and will expire on 31 December 2020 with a right of our Group to enter into a renewal agreement with Hangzhou Haoming in respect of the lease of the Property Two.

If our Group requests to renew the leases of the Properties upon its expiry, it will have a prior right to renew provided it gives a 60-day advance notice to renew to Hangzhou Haoming, and Hangzhou Haoming shall lease the Properties to our Group on the terms same as those of the Tenancy Agreement.

Our Directors and the Joint Sponsors consider that a term of 6 years for the lease of the Property One and 20 years for the lease of Property Two is consistent with normal business practice for contracts of this type and is to the benefit of our Group because relocation of our Group's production facilities at the Xiaoshan Site (i.e. the location of the Properties) would have impact on our Group's operations.

### Other terms

Pursuant to the Tenancy Agreement, during the term of the lease of the Properties, Hangzhou Haoming has granted a right to our Group to acquire from Hangzhou Haoming the Properties and the land on which the Properties are located at a market price which shall be determined by reference to the market price of such land and buildings as valued by an independent qualified property valuer jointly appointed by the parties. In addition, during the term of the lease of the Properties under the

## CONNECTED TRANSACTIONS

Tenancy Agreement, if Hangzhou Haoming intends to dispose of the Properties to any third party, it shall serve a written notice to our Group 90 days in advance, and our Group shall have the right of first refusal to purchase the Properties on the same terms or terms not less favourable than the terms as proposed to be offered by Hangzhou Haoming to the third party. If our Group does not exercise the right of first refusal during such 90 days, Hangzhou Haoming may proceed with such disposal to the third party on terms not more favourable than those offered to our Group.

*(b) Reason for the transaction*

As mentioned above, the Properties have been used by Hangzhou Haoming for its surfactant manufacturing business. Following completion of the acquisition of Hangzhou Haoming's surfactant manufacturing and sale business and ethylene oxide trading business by Hangzhou Sanjiang, the Properties would continue to be used by Hangzhou Sanjiang for the production of surfactants in Xiaoshan District. Our Directors consider that the long term leases of the Properties under the Tenancy Agreement are sufficient to ensure our Group a secured production base for operating the surfactant manufacturing business of our Group without the need for our Group to acquire the relevant land; and therefore it is in the best interest of our Group not to acquire the Properties to avoid unnecessary capital expenditure, but to lease the Properties for production of our Group in Xiaoshan District, which will be carried on by Hangzhou Sanjiang.

*(c) Historical Figures*

No rent has been paid by our Group during the Track Record Period.

*(d) Estimated annual cap amounts payable for the three years ending 31 December 2012*

The annual rent payable by our Group under the Tenancy Agreement for the lease of the Properties for each of the three years ending 31 December 2012 will be RMB900,000, RMB1,200,000 and RMB1,200,000. The annual caps represent that actual total annual rent payable by our Group to Hangzhou Haoming pursuant to the Tenancy Agreement.

*(e) Listing Rules requirements*

Based on the annual caps for the lease of the Properties under the Tenancy Agreement for the three years ending 31 December 2012, it is expected that each of the percentage ratios (other than profits ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, will not exceed 0.1%, and therefore the lease of the Properties under the Tenancy Agreement for the three years ending 31 December 2012 is exempt from the reporting, announcement and independent shareholders' approval requirements as set out under Rule 14A.33(3) of the Listing Rules.

**(2) Purchasing Low Pressure Steam from Jiaxing Rewang**

*(a) Low Pressure Steam Supply Agreement with Jiaxing Rewang*

Low pressure steam is used for vapourisation of liquid ethylene.

## CONNECTED TRANSACTIONS

Pursuant to a low pressure steam supply agreement (the “**Rewang Low Pressure Steam Supply Agreement**”) entered into between Sanjiang Chemical and Jiaying Rewang on 16 August 2010, Jiaying Rewang has agreed to supply low pressure steam to Sanjiang Chemical at a price which equals to the price of low pressure steam stipulated by Jiaying Commodities Price Bureau (嘉興市物價局), provided that (i) such terms and conditions under the Rewang Low Pressure Steam Supply Agreement shall be on terms which are no less favourable to Sanjiang Chemical than those offered by Jiaying Rewang to its Independent Third Party purchasers for such low pressure steam of comparable quality; and (ii) the purchase price payable by Sanjiang Chemical in respect of purchases under the Rewang Low Pressure Steam Supply Agreement shall be tallied on the 25th day of each calendar month together with an extra 6% of the tallied usage amount of such low pressure steam by Sanjiang Chemical billed to Sanjiang Chemical to cover the loss in transmission and be payable by Sanjiang Chemical on or before the 10th calendar day of the following month.

As the pipelines for the supply of low pressure steam from Jiaying Rewang to our Group are already in place, our Group does not expect that new steam pipelines will need to be constructed for such purpose during the term of the Rewang Low Pressure Steam Supply Agreement. It is expected that our Group will not incur any design and construction costs of new steam pipelines for the term of the Low Pressure Steam Supply Agreement. Our Company will comply with all applicable requirements under Chapter 14A of the Listing Rules if it intends to construct any new pipelines in the future.

During the transmission of steam through pipelines there is inevitably a certain amount of steam loss over distance which happens as a result of heat loss from the pipelines, which causes steam to condense thereby reducing the steam volume. As a result, the volume of steam supplied to our Group as shown by the steam meter, not having taken into account the volume of steam loss through transmission, would be smaller than the volume of steam actually supplied from the source. To cover such loss in transmission and in accordance with general market practice, an extra 6% of the tallied usage amount as shown by the steam meter will be charged, the percentage of which was determined with reference to the fees for loss in transmission charged by Jiaying Rewang to Independent Third Parties and the distance between the steam meter and Sanjiang Chemical.

Under the Rewang Low Pressure Steam Supply Agreement, where either party is in doubt as to the accuracy of the reading of the steam meter, either party may appoint a competent and independent party to check and verify the meter reading.

The Rewang Low Pressure Steam Supply Agreement is for a term commencing on 16 August 2010 and expiring on 31 December 2012.

*(b) Reason for the transactions*

As the production base of our Group is situated close to that of Jiaying Rewang, transport cost of low pressure steam from Jiaying Rewang to our Group can be reduced. Moreover, Jiaying Rewang has been supplying steam to our Group during the Track Record Period and the quality of goods and service provided by them has been considered by our Group to be satisfactory. Further, as our Group has an existing steam transmission network

## CONNECTED TRANSACTIONS

previously provided by Jiaxing Rewang, our Group can procure supply of low pressure steam from Jiaxing Rewang without incurring additional fixed cost. In view of the geographical proximity and to secure a constant and stable supply of low pressure steam for its production purposes at fair commercial terms and reasonable price, our Group entered into the the Rewang Low Pressure Steam Supply Agreement.

*(c) Historical Figures*

During the Track Record Period, Sanjiang Chemical had purchased low pressure steam from Jiaxing Rewang for the aggregate annual consideration of approximately RMB1,542,100, RMB2,512,800, RMB3,285,500 and RMB934,270, respectively.

*(d) Estimated annual cap amounts payable for the three years ending 31 December 2012*

Based on (1) the historical amount of purchases made by our Group from Jiaxing Rewang for low pressure steam during the Track Record Period; (2) the expected future growth of the manufacturing business of our Group for the three years ending 31 December 2012 and the expected increase in its demand for low pressure steam for production purposes (with the estimated annual quantity of low pressure steam demanded by our Group for each of the three years ending 31 December 2012 being estimated to be 25,160 MT, 37,280 MT and 37,280 MT); (3) the assumption of market price of coal (which in turn affects the market price of low pressure steam) at RMB812 (calculated based on the average coal price during the Track Record Period with 8% increment) for the year ending 31 December 2010, with an estimated coal price increase at about 8% per annum for the two years ending 31 December 2012; and (4) the assumption that the purchase prices per MT of steam for the three years ending 31 December 2012 is RMB163.34, RMB173.02 and RMB182.70 respectively, it is expected that the aggregate consideration payable by our Group under the Rewang Low Pressure Steam Supply Agreement for the three years ending 31 December 2012 not exceed RMB4,110,000, RMB6,451,000 and RMB6,812,000 respectively.

*(e) Listing Rules implications*

As the transactions under the Rewang Low Pressure Steam Supply Agreement involves purchasing of low pressure steam, being consumer goods of a type ordinarily supplied for private use or consumption, in the ordinary and usual course of business of our Group on normal commercial terms which are no less favourable than those available from Independent Third Parties, and the steam is supplied at the price which equals to the price of low pressure steam stipulated by Jiaxing Commodities Price Bureau (嘉興市物價局), a publicly quoted price which is applied by Jiaxing Rewang to its independent consumers, and the estimated transaction amount under the Rewang Low Pressure Steam Supply Agreement for each of the three years ending 31 December 2012 represents less than 1% of the total purchases of the Group for the year ended 31 December 2009, the transactions under the Rewang Low Pressure Steam Supply Agreement are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.33(1) of the Listing Rules.

## CONNECTED TRANSACTIONS

### (C) Continuing Connected Transactions subject to reporting, announcement and independent shareholders' approval requirements

#### (1) Supply Agreements

##### *(a) Water and Miscellaneous Materials Supply Agreement*

Desalinated water is used for absorption of ethylene oxide in the production of ethylene oxide. Miscellaneous materials, including sodium hydroxide and sodium hypochlorite, are used in the production of ethylene oxide.

During the Track Record Period, Sanjiang Chemical had purchased desalinated water and miscellaneous materials from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB289,600, RMB598,500, RMB471,900 and RMB134,521, respectively.

Pursuant to a desalinated water and miscellaneous materials supply agreement (the “**Water and Miscellaneous Materials Supply Agreement**”) entered into between Sanjiang Chemical and Jiahua Industrial Park Co on 16 August 2010, Jiahua Industrial Park Co has agreed to supply desalinated water to Sanjiang Chemical at market price (which will be determined by reference to the price of coal and water for industrial use acquired by Jiahua Industrial Park Co) and miscellaneous materials such as sodium hydroxide and sodium hypochlorite at market price, provided that (i) such terms and conditions under the Water and Miscellaneous Materials Supply Agreement shall be on terms which are no less favourable to Sanjiang Chemical than those offered by Jiahua Industrial Park Co to its Independent Third Party purchasers for such desalinated water and miscellaneous materials of comparable quality; (ii) the purchase price payable by Sanjiang Chemical in respect of purchases under the Water and Miscellaneous Materials Supply Agreement shall be tallied on the 25th day of each calendar month and be due and payable by Sanjiang Chemical by the end of that calendar month; and (iii) Sanjiang Chemical shall within 3 months of the new pipelines (which are constructed for the purposes of the Water and Miscellaneous Materials Supply Agreement) becoming operational reimburse all the pipeline construction fees (including the design, materials and construction fees) incurred by Jiahua Industrial Park Co, if any.

As the pipelines for the supply of desalinated water from Jiahua Industrial Park Co to our Group are already in place, it is not expected that construction of new pipelines for such purpose will be required during the term of the Water and Miscellaneous Materials Supply Agreement. It is, therefore, expected that our Group will not incur any design and construction costs of new pipelines for the term of the Water and Miscellaneous Materials Supply Agreement. Our Company will comply with all applicable requirements under Chapter 14A of the Listing Rules if it intends to construct any new pipelines in the future.

Under the Water and Miscellaneous Materials Supply Agreement, Jiahua Industrial Park Co is responsible for installation and maintenance of the desalinated water meter. Where either party to the Water and Miscellaneous Materials Supply Agreement is in doubt

## CONNECTED TRANSACTIONS

as to the accuracy of the reading of the meter, either party may appoint a competent and independent party to check and verify the meter reading.

The Water and Miscellaneous Materials Supply Agreement is for a term commencing on 16 August 2010 and expiring on 31 December 2012.

*(b) Low Pressure Steam Supply Agreement*

Low pressure steam is used for heating reactants in the production of surfactants.

During the Track Record Period, Sanjiang Chemical had purchased low pressure steam from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB0, RMB0, RMB153,600 and RMB646,665, respectively.

Pursuant to a low pressure steam supply agreement (the “**Low Pressure Steam Supply Agreement**”) entered into between Sanjiang Chemical and Jiahua Industrial Park Co on 16 August 2010, Jiahua Industrial Park Co agreed to supply low pressure steam to Sanjiang Chemical at a price arrived at by deducting RMB23.4 per ton (being bulk purchase discount) from the price of low pressure steam stipulated by Jiaying Commodities Price Bureau (嘉興市物價局), provided that (i) such terms and conditions under the Low Pressure Steam Supply Agreement shall be on terms which are no less favourable to Sanjiang Chemical than those offered by Jiahua Industrial Park Co to its Independent Third Party purchasers for such low pressure steam of comparable quality; (ii) the purchase price payable by Sanjiang Chemical in respect of purchases under the Low Pressure Steam Supply Agreement shall be tallied on the 25th day of each calendar month together with an extra 2% of the tallied usage amount of such low pressure steam by Sanjiang Chemical billed to Sanjiang Chemical to cover the loss in transmission and be payable by Sanjiang Chemical on or before the 10th calendar day of the following month; and (iii) Sanjiang Chemical shall bear the entire design and construction cost of new steam pipeline incurred by Jiahua Industrial Park Co for the purposes of the Low Pressure Steam Supply Agreement, if any.

As the pipelines for the supply of low pressure steam from Jiahua Industrial Park Co to our Group are already in place, our Group does not expect that new steam pipelines will need to be constructed for such purpose during the term of the Low Pressure Steam Supply Agreement. It is, therefore, expected that our Group will not incur any design and construction costs of new steam pipelines for the term of the Low Pressure Steam Supply Agreement. Our Company will comply with all applicable requirements under Chapter 14A of the Listing Rules if it intends to construct any new pipelines in the future.

During the transmission of steam through pipelines there is inevitably a certain amount of steam loss over distance which happens as a result of heat loss from the pipelines, which causes steam to condense thereby reducing the steam volume. As a result, the volume of steam supplied to our Group as shown by the steam meter, not having taken into account the amount of steam loss through transmission, would be smaller than the volume of steam actually supplied from the source. To cover such loss in transmission and in accordance with general market practice, an extra 2% of the tallied usage amount as shown by the steam meter will be charged, the percentage of which was determined with reference to the fees for loss in transmission charged by Jiahua Industrial Park Co to Independent Third Parties and the distance between the steam meter and Sanjiang Chemical.

## CONNECTED TRANSACTIONS

Sanjiang Chemical is responsible for purchasing the steam meter and the management and maintenance of such meter. Under the Low Pressure Steam Supply Agreement, where either party is in doubt as to the accuracy of the reading of the steam meter, either party may appoint a competent party to check and verify the meter reading.

The Low Pressure Steam Supply Agreement is for a term commencing on 16 August 2010 and expiring on 31 December 2012.

*(c) High Pressure Steam Supply Agreement*

High pressure steam is used by our Group for heating reactants in the production of ethylene oxide.

During the Track Record Period, Sanjiang Chemical had purchased high pressure steam from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB249,600, RMB6,652,000, RMB49,848,600 and RMB15,579,769, respectively.

Pursuant to a high pressure steam supply agreement (the “**High Pressure Steam Supply Agreement**”) entered into between Sanjiang Chemical and Jiahua Industrial Park Co on 16 August 2010, Jiahua Industrial Park Co agreed to supply high pressure steam to Sanjiang Chemical at market price calculated and adjusted monthly with reference to the market price of coal (purchased by Jiahua Industrial Park Co for production of high pressure steam in the previous month), provided that (i) such terms and conditions under the High Pressure Steam Supply Agreement shall be on terms which are no less favourable to Sanjiang Chemical than those offered by Jiahua Industrial Park Co to its Independent Third Party purchasers for such high pressure steam of comparable quality; (ii) the purchase price payable by Sanjiang Chemical in respect of purchases under the High Pressure Steam Supply Agreement shall be tallied on the 25th day of each calendar month and be payable by Sanjiang Chemical on or before the 10th calendar day of the following month; and (iii) Sanjiang Chemical shall bear the entire design and construction cost of the new steam pipeline incurred by Jiahua Industrial Park Co for the purposes of the High Pressure Steam Supply Agreement, if any.

As the pipelines for the supply of high pressure steam from Jiahua Industrial Park Co to our Group are already in place, it is not expected that construction of new steam pipelines for such purpose will be required during the term of the High Pressure Steam Supply Agreement. It is, therefore, expected that our Group will not incur any design and construction costs of new steam pipelines for the term of the High Pressure Steam Supply Agreement. Our Company will comply with all applicable requirements under Chapter 14A of the Listing Rules if it intends to construct any new pipelines in the future.

Under the High Pressure Steam Supply Agreement, our Company is responsible for installation of the steam meter whereas Jiahua Industrial Park Co is responsible for maintenance of the steam meter. Where either party to the High Pressure Steam Supply Agreement is in doubt as to the accuracy of the reading of the meter, either party may appoint a competent and independent party to check and verify the meter reading.

The High Pressure Steam Supply Agreement is for a term commencing on 16 August 2010 and expiring on 31 December 2012.

## CONNECTED TRANSACTIONS

### (2) Reasons for the transactions

As the production base of our Group is situated close to that of Jiahua Industrial Park Co, transport cost of water, miscellaneous materials and steam from Jiahua Industrial Park Co to our Group can be reduced. Moreover, Jiahua Industrial Park Co has been supplying water, miscellaneous materials and steam to our Group during the Track Record Period and the quality of goods and service provided by them has been considered by our Group to be satisfactory. Further, as our Group has an existing transmission network for water and steam respectively in place for transmission of water and steam from Jiahua Industrial Park Co, our Group can procure supply of water and steam from Jiahua Industrial Park Co without incurring additional fixed cost. In view of the geographical proximity and to secure a constant and stable supply of water and steam for its production purposes at fair commercial terms and reasonable price, our Group entered into the Water and Miscellaneous Materials Supply Agreement, the Low Pressure Steam Supply Agreement and the High Pressure Steam Supply Agreement (collectively, the “**Supply Agreements**”).

### (3) Historical figures

Since the Supply Agreements were entered into with Jiahua Industrial Park Co, the continuing connected transactions contemplated thereunder are aggregated in accordance with Chapter 14A of the Listing Rules.

For each of the three years ended 31 December 2009 and the four months ended 30 April 2010, Sanjiang Chemical had purchased desalinated water and miscellaneous materials from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB289,600, RMB598,500, RMB471,900 and RMB134,521, respectively, with the quantity of purchase of desalinated water being approximately 22,610 MT, 45,900 MT, 34,970 MT and 10,940 MT and the unit purchase price of desalinated water being approximately RMB12.30, RMB12.53, RMB12.30 and RMB12.30 respectively.

Our Group started to purchase low pressure steam from Jiahua Industrial Park Co in October 2009. Before that, our Group purchased low pressure steam from Jiaxing Rewang, a company owned as to 40% by Jiahua Industrial Park Co. For each of the three years ended 31 December 2009 and the four months ended 30 April 2010, Sanjiang Chemical had purchased low pressure steam from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB0, RMB0, RMB153,600 and RMB646,665, respectively, with the quantity of purchase being approximately 0 MT, 0 MT, 1,200 MT and 4,530 MT, and the unit purchase price being approximately RMB0, RMB0, RMB127.96 and RMB142.63 respectively.

For each of the three years ended 31 December 2009 and the four months ended 30 April 2010, Sanjiang Chemical had purchased high pressure steam from Jiahua Industrial Park Co for the aggregate annual consideration of approximately RMB249,600, RMB6,652,000, RMB49,848,600 and RMB15,579,769, respectively, with the quantity of purchase being approximately 1,200 MT, 28,360 MT, 290,600 MT and 78,810 MT, and the unit purchase price being approximately RMB207.96, RMB234.52, RMB171.54 and RMB197.70 respectively.

## CONNECTED TRANSACTIONS

For each of the three years ended 31 December 2009 and the four months ended 30 April 2010, the aggregate consideration paid by Sanjiang Chemical to Jiahua Industrial Park Co for the purchases of water, miscellaneous materials and steam from Jiahua Industrial Park Co were approximately RMB539,200, RMB7,250,500, RMB50,474,100 and RMB16,360,955, respectively.

**(4) Estimated maximum annual consideration payable for purchases of water and steam for the three years ending 31 December 2012**

Ethylene oxide is produced by direct oxidation of ethylene with the use of oxidation catalyst. As a result of a change to using more effective oxidation catalyst for one of the two ethylene oxide production lines of our Group in July 2010 (which requires approximately 4.8% less ethylene and approximately 26.6% more high pressure steam than the previous oxidation catalyst in producing each MT of ethylene oxide), more high pressure steam is required in the production process. Hence, it is expected that the transaction amount of high pressure steam for the second half of the year ending 31 December 2010 will be higher compared with that for the first half of the year ending 31 December 2010, and that the annual transaction amount of high pressure steam for the year ending 31 December 2010 is expected to be relatively higher compared with that for the year ended 31 December 2009. Moreover, at the time of change of oxidation catalyst in July 2010, inspection and maintenance of the production facilities as well as cleansing of containers and pipelines were carried out which increases the consumption of desalinated water. Thus, it is estimated that the demand for desalinated water for the second half of the year ending 31 December 2010 will be higher compared with that of the first half of the year ending 31 December 2010.

As (1) our Group only started to purchase low pressure steam from Jiahua Industrial Park Co in October 2009; (2) the average purchase price of low pressure steam is expected to increase as a result of the expected increase in average coal price from approximately RMB600 in 2009 to approximately RMB812 in 2010; and (3) our Company's plans to increase the annual production of surfactants for the year ending 31 December 2010 which will in turn increase our Group's expected use of low pressure steam accordingly, the expected amount of purchase of low pressure steam from Jiahua Industrial Park Co for the year ending 31 December 2010 is estimated to be over approximately 16 times higher than that of the year ended 31 December 2009.

Our Company is setting up a new ethylene oxide production line with expected production commencing in 2011. It is estimated that the new production line will increase the ethylene oxide production capacity of our Group by about 50%, which will in turn increase our Group's expected use of high pressure steam as well as desalinated water for the production of ethylene oxide accordingly for the two years ending 31 December 2012.

Ethylene oxide is one of the raw materials for the production of surfactants. Following the increase in production capacity and thus the production volume of ethylene oxide from 2011, the surfactant production volume of our Group for the two years ending 31 December 2012 is estimated to increase and thereby increasing our Group's estimated use of low pressure steam for the two years ending 31 December 2012 by approximately 40% and 50% respectively compared with that of the year ending 31 December 2010.

## CONNECTED TRANSACTIONS

Based on (1) the historical amount of purchases made by our Group from Jiahua Industrial Park Co for water, miscellaneous materials and steam during the Track Record Period; (2) the expected future growth of the manufacturing business of our Group for the three years ending 31 December 2012 and the expected increase in its demand for desalinated water, miscellaneous materials and steam for production purposes (with the estimated annual quantity demanded by our Group for each of the three years ending 31 December 2012 being estimated to be, as for desalinated water, 39,490 MT, 53,350 MT and 53,350 MT; as for high pressure steam, 363,000 MT, 537,680 MT and 537,680 MT; and as for low pressure steam, 17,600 MT, 24,750 MT and 26,400 MT); (3) the assumption of market price of coal (which in turn affects the market price of high pressure steam and low pressure steam) at approximately RMB812 (calculated based on the average coal price during the Track Record Period with 8% increment) for the year ending 31 December 2010, with an estimated coal price increase at about 8% per annum for the two years ending 31 December 2012; and (4) the assumption that the purchase prices per MT of desalinated water, high pressure steam and low pressure steam respectively from Jiahua Industrial Park Co for the three years ending 31 December 2012 is RMB12.3, RMB12.3 and RMB12.3, RMB210.12, RMB220.76 and RMB231.41, and RMB142.63, RMB152.31 and RMB161.99 respectively, it is expected that the aggregate consideration payable by our Group under the Supply Agreements for the three years ending 31 December 2012 would not exceed RMB79,470,000, RMB123,328,000 and RMB129,560,000 respectively.

Set out below is a summary of the historical figures during the Track Record Period and the proposed annual cap amounts for each of the Supply Agreements:

Nature of transaction	Historical amount				Annual cap amount		
	For the year ended		2009	For the	For the year ending		
	2007	2008		four months ended	2010	2011	2012
	31 December	31 December		30 April	31 December		
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
1 Water and Miscellaneous Materials Supply Agreement	289,600	598,500	471,900	134,521	686,000	857,000	857,000
2 Low Pressure Steam Supply Agreement	0	0	153,600	646,665	2,511,000	3,770,000	4,277,000
3 High Pressure Steam Supply Agreement	249,600	6,652,000	49,848,600	15,579,769	76,273,000	118,701,000	124,426,000
<b>Total:</b>	<b>539,200</b>	<b>7,250,500</b>	<b>50,474,100</b>	<b>16,360,955</b>	<b>79,470,000</b>	<b>123,328,000</b>	<b>129,560,000</b>

### (5) Listing Rules requirements

As each of the percentage ratios (other than the profits ratio) of the continuing connected transactions contemplated under the Supply Agreements is, on an annual basis, more than 5%, the above continuing connected transactions are therefore subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

**(6) Application for waiver from strict compliance of the Listing Rules**

Pursuant to Rule 14A.42(3) of the Listing Rules, our Group has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a specific waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in connection with the transactions contemplated under each of the Supply Agreements as described above. Our Company confirmed that it will comply with the applicable requirements under the Listing Rules as amended from time to time, and will immediately inform the Stock Exchange if there are any changes to the transactions contemplated under the Supply Agreements.

**(D) Views of our Directors and the Joint Sponsors**

Our Directors (including all the independent non-executive Directors) have confirmed that all the continuing connected transactions contemplated under the Tenancy Agreement, the Rewang Low Pressure Steam Supply Agreement and the Supply Agreements have been entered into in the ordinary and usual course of business of our Group, and have been and will continue to be (i) carried out on normal commercial terms, (ii) in the ordinary and usual course of business of our Group, and (iii) fair and reasonable and in the interests of our Shareholders as a whole. Our Directors (including all the independent non-executive Directors) are of the view that the proposed annual caps for the continuing connected transactions contemplated under the Tenancy Agreement, the Rewang Low Pressure Steam Supply Agreement and the Supply Agreements are fair and reasonable and in the interests of our Shareholders as a whole.

The Joint Sponsors are of the view that the continuing connected transactions contemplated under each of the Tenancy Agreement, the Rewang Low Pressure Steam Supply Agreement and the Supply Agreements described above have been entered into in the ordinary course of business of our Group, on normal commercial terms that are fair and reasonable and in the interests of our Shareholders as a whole and that the proposed annual caps of each of these continuing connected transactions are fair and reasonable and in the interests of our Shareholders as a whole.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Our Board currently consists of seven Directors, including four executive Directors and three independent non-executive Directors. The table below sets out certain information in respect of the members of our Board:

Name	Age	Position
Mr. GUAN Jianzhong	42	Chairman and Executive Director
Ms. HAN Jianhong	36	Executive Director
Mr. NIU Yingshan	37	Executive Director
Mr. HAN Jianping	39	Executive Director
Mr. WANG Wanxu	50	Independent Non-Executive Director
Mr. SHEN Kaijun	42	Independent Non-Executive Director
Mr. LI Zhihong	43	Independent Non-Executive Director

### Chairman and Executive Director

**GUAN Jianzhong (管建忠)**, aged 42, is our chairman and an executive Director. Mr. Guan is one of the founders of our Group. He is primarily responsible for the overall management and strategy of our Group. Mr. Guan is also currently a director of each of the subsidiaries of our Group. Mr. Guan completed a training course in business administration at a management training centre of Zhejiang University (浙江大學) in 2007 and a corporate management training course at Tsinghua University (清華大學) in October 2009. He has over 25 years of experience in the chemical industry. From November 1985 to November 1996, Mr. Guan was employed at Hangzhou Electrochemical Group Co., Ltd. (杭州電化集團有限公司), which was then a state-owned company, where he served as a workshop supervisor and was later transferred to the surfactant research and development department and marketing department. In 1998, Mr. Guan, together with Ms. Han and Mr. Han Jianping, established Hangzhou Haoming, in which he served as the chairman of the board of directors and the general manager. He had served as a director and the general manager of Sanjiang Chemical since 2003. Further, he has served as the chairman of the board of directors and the general manager of Yongming Petrochemical since 2006. In 2008, Mr. Guan was also appointed and has since served as the chairman of the board of directors of both Jiahua and Jiahua Industrial Park Co.. Jiahua is principally engaged in the manufacturing of agrochemicals. Its business is not in competition with that of our Group. Mr. Guan is the spouse of Ms. Han, one of our executive Directors. Mr. Guan was appointed as our executive Director on 22 March 2010.

### Other Executive Directors

**HAN Jianhong (韓建紅)**, aged 36, is an executive Director. Ms. Han is one of the founders of our Group. She is primarily responsible for the business planning, business structuring and restructuring, overseeing legal matters and investor relations of our Group. Ms. Han is also a director of Sanjiang Chemical, Yongming Petrochemical, Sanjiang Trading and Hangzhou Sanjiang. In 1998, Ms. Han, together with Mr. Guan and Mr. Han Jianping, established Hangzhou Haoming, in which she served as a deputy general manager. Since 2003, she has also acted as the chairman of the board of directors of Sanjiang Chemical. Being one of the co-founders and as deputy general manager of Hangzhou Haoming since 1998, Ms. Han has over 12 years of experience in the chemical industry. Ms. Han is the spouse of Mr. Guan, our Chairman and one of our executive Directors. Ms. Han is the sister of Mr. Han Jianping, one of our executive Director. Ms. Han was appointed as our executive Director on 22 March 2010.

## DIRECTORS AND SENIOR MANAGEMENT

**NIU Yingshan (牛瑛山)**, aged 37, is an executive Director. Mr. Niu is primarily responsible for the management of production, safety and environmental protection of our Group. Mr. Niu graduated with a bachelor's degree in computer science and application (distance learning course) from the Beijing University of Chemical Technology (北京化工大學) in 2002 and has over 18 years of experience in the chemical manufacturing industry. Prior to joining our Group, Mr. Niu had been employed at Jilin Chemical Group Company (中國石油天然氣股份有限公司吉林石化公司) for 12 years, during which he served as an engineer and was later involved in distributed control system (DCS) management. He then joined our Group in April 2004 and was mainly involved in the construction project of our ethylene oxide production facilities at our Jiaying Production Plant, in which he was responsible for the technical aspects of the automatic control system. Mr. Niu was later promoted as a factory director, the head of the production department, the head of the equipment safety and environment protection department and an assistant to general manager, and has since January 2009 served as the deputy general manager of Sanjiang Chemical. Mr. Niu is currently a director of Sanjiang Chemical and responsible for the production management of both Sanjiang Chemical and Yongming Petrochemical in our Group. Mr. Niu was appointed as our executive Director on 24 August 2010.

**HAN Jianping (韓建平)**, aged 39, is an executive Director. Mr. Han is primarily responsible for the sales, procurement, research and development of our Group. Mr. Han has over 19 years of experience in the chemical industry. Prior to joining our Group, Mr. Han was employed at Hangzhou Electrochemical Group Co., Ltd. (杭州電化集團有限公司) from 1991 to 1998, where he served as a production section leader and was primarily engaged in production related work in the workshop. In 1998, Mr. Han, together with Mr. Guan and Ms. Han, established Hangzhou Haoming, and has since served as a deputy general manager. Mr. Han was also appointed as an executive director for both Sanjiang Chemical and Yongming Petrochemical in 2007 and 2009 respectively. Mr. Han is the brother of Ms. Han, one of our executive Directors. Mr. Han was appointed as our executive Director on 24 August 2010.

### Independent Non-executive Directors

**WANG Wanxu (王萬緒)**, aged 50, is an independent non-executive Director. Mr. Wang graduated with a bachelor's degree in science from Shanxi University (山西大學) in 1982 and completed a master's degree in business administration from Xi'an Jiaotong University (西安交通大學) in 2004. Mr. Wang has extensive experience as an engineer and about 28 years of experience in the chemical industry. Mr. Wang is currently the dean of the China Research Institute of Daily Chemical Industry (中國日用化學工業研究院), a surfactant and detergent industry specialised research institute which he joined in August 1982 and where he has worked for about 28 years. In June 2004, Mr. Wang joined Sinolight Corporation (中國輕工集團公司) and has since served as a president assistant. Mr. Wang was appointed as an independent non-executive Director on 24 August 2010.

## DIRECTORS AND SENIOR MANAGEMENT

**SHEN Kaijun (沈凱軍)**, aged 42, is an independent non-executive Director. Mr. Shen graduated with a bachelor's degree in accounting from Hangzhou Institute of Electronic Engineering (杭州電子工業學院) in 1995 and was admitted as a certified public accountant in China in December 1993. Mr. Shen was further awarded the qualifications as a licensed certified accountant to engage in securities-related businesses in July 1997 and a certified tax agent in June 2000. Mr. Shen has over 21 years of experience in accounting and corporate management. Mr. Shen had served as audit assistant, vice-supervisor, supervisor, and assistant to the head of Jiaying Certified Public Accountants Co., Ltd. (嘉興會計師事務所) from 1988 to 1998 and as chairman of the board of directors and general manager of Jiaying Zhongming Certified Public Accountants Co., Ltd. (嘉興中明會計師事務所有限公司) from 1999 to 2008. He is currently the chairman of the board of directors and the general manager of Zhejiang Zhongming Certified Public Accountants Co., Ltd. (浙江中銘會計師事務所有限公司) and an independent director of Zhejiang Jiabin Silk Corp., Ltd. (浙江嘉欣絲綢股份有限公司). Mr. Shen was appointed as an independent non-executive Director on 24 August 2010.

**LI Zhihong (李志宏)**, aged 43, is an independent non-executive Director. Mr. Li graduated with a bachelor's degree in law from Renmin University of China Law School (中國人民大學法學院) in 1990. Mr. Li is currently a partner in DeHeng Law Office (德恒律師事務所), a curriculum professor at the Graduate School of Peking University (北京大學研究生院) and the director of the legal professional committee of the Beijing Haidian Venture Capital and Private Equity Association (北京海澱區創業投資及私募股權投資協會). Mr. Li has over 10 years of experience in the legal field, specialising in finance and securities law. Mr. Li served as a legal consultant for the Shanghai Stock Exchange and China Securities Depository and Clearing Corporation Limited, as well as China Development Bank, China CITIC Bank and other financial institutions. Mr. Li was also responsible for numerous initial public offerings, major restructuring and merger and acquisition projects for corporations including China Railway Construction Corporation Limited, Lijun International Pharmaceutical (Holding) Co., Ltd. and 3S Bio. Inc. Mr. Li was appointed as an independent non-executive Director on 24 August 2010.

Save as disclosed, each of the Directors confirms with respect to himself/herself that: (i) he/she has not held any directorships in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he/she does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of the Company; (iii) he/she does not hold any positions in the Company or other members of the Group; (iv) he/she does not have any interests in the Shares within the meaning of Part XV of the SFO; (v) there is no other information that should be disclosed for him/her pursuant to the requirements under Rules 13.51(2)(a) to 13.51(2)(v) of the Listing Rules; and (vi) there are no other matters that need to be brought to the attention of holders of securities of our Company.

### SENIOR MANAGEMENT

Name	Age	Position
Mr. ZHANG Gui	29	Head of Administration Department (行政總監)
Mr. CHA Lixin	58	Head of Production Department (生產總監)
Ms. CHEN Xian	36	Secretary of the Board and Chief Accountant (董事會秘書及總會計師)
Mr. DE Xin	48	Head of Sales Department (銷售總監)
Mr. HAN Zongqi	47	Head of Procurement Department (採購總監)
Mr. YIP Ngai Hang	32	Financial Controller and Company Secretary (財務經理及公司秘書)

## DIRECTORS AND SENIOR MANAGEMENT

**ZHANG Gui (張瑰)**, aged 29, is the head of the administration department of our Company. Mr. Zhang is primarily responsible for the human resources, administrative, operations, compliance matters in relation to the business expansion, legal and board affairs of our Group. Mr. Zhang graduated with a double bachelor's degree in law and management from the Zhongnan University of Economics and Law (中南財經政法大學) in 2003. Mr. Zhang has over six years of experience in industrial enterprise management. He joined our Group in December 2003 and has participated in the management, business development and expansion of Sanjiang Chemical. Since December 2003, Mr. Zhang has served as a President Assistant and Office Manager in Sanjiang Chemical, and was responsible for Sanjiang Chemical's human resources and administration, operations, compliance matters in relation to business expansion, legal and board affairs. Moreover, Mr. Zhang is currently the general manager of Guanlang and the chairman of Jianghao Property. Since July 2010, Mr. Zhang has been appointed as head of legal and compliance for a term of one year to handle all legal and compliance matters of our Group. Such appointment will be renewed automatically upon expiry.

**CHA Lixin (查立新)**, aged 58, is the head of the production department of our Company. Mr. Cha is primarily responsible for the ethylene oxide production management of our Group. Mr. Cha has over 39 years of experience in the chemical industry, in which he specialises in the technology and production management of ethylene oxide and ethylene glycol. Prior to joining our Group, Mr. Cha was employed at Jilin Chemical Group Company (中國石油天然氣股份有限公司吉林石化分公司) from June 1970 to the end of 2003, where he served as the head of the construction section of the ethylene oxide plant (環氧乙烷車間工段長), supervisor of the ethylene glycol workshop (乙二醇車間主任) and supervisor and secretary for the ethylene oxide workshop (環氧乙烷車間主任兼書記). Mr. Cha joined our Group in March 2004, and was mainly responsible for the construction project of our first phase ethylene oxide production facilities in our Jiaying Production Plant. In particular, he was appointed as the factory manager of the ethylene oxide production facility, and was responsible for the technology and production management in the ethylene production project. In January 2009, Mr. Cha was appointed and has since served as the President Assistant of Sanjiang Chemical.

**CHEN Xian (陳嫻)**, aged 36, is the secretary of the Board and the chief accountant of our Company. Ms. Chen is primarily responsible for the financial management of our Group. Ms. Chen graduated with a diploma in accounting from the Hangzhou Institution of Commerce of Zhejiang Gongshang University (浙江工商大學杭州商學院) in 1996 and is currently completing a bachelor's degree in accounting from Renmin University of China (中國人民大學) through online distance learning. Ms. Chen was enrolled to the programme in 2004 while she applied for a suspension of studies in 2008. Ms. Chen resumed her studies in 2010 and currently expects to complete the course in March 2013. Ms. Chen has over 13 years of experience in financial management. Prior to joining our Group, Ms. Chen was employed at Beijing Jianhao Investment Group Co., Ltd. (北京建昊投資集團有限公司) for 11 years, where she served as the manager of the financial department. From January 2008 to August 2008, she served as a director of the strategic investment department of Jiaying Zhonghua Chemical Industry Co., Ltd. (嘉興中華化工有限責任公司). Further, from September 2008 to July 2009, Ms. Chen served as the deputy financial controller of Jiahua Industrial Park Co., and was in charge of the financial affairs for Zhejiang Xinchen Chemical Co., Ltd. (浙江新晨化工有限公司). Ms. Chen joined our Group as the deputy head of the financial department of Sanjiang Chemical in August 2009 and was later appointed as head of the financial department of Sanjiang Chemical in November 2009.

## DIRECTORS AND SENIOR MANAGEMENT

**DE Xin (德新)**, aged 48, is the head of the sales department of our Company. Mr. De is primarily responsible for the sales management of our Group. Mr. De graduated with a diploma in business management (distance learning course) from Northeast Normal University (東北師範大學) in July 1997 and completed a chief marketing officer training course in April 2009. Mr. De has over 27 years of experience in the chemical industry. Prior to joining our Group, Mr. De was employed at Jilian (Jilin) Petrochemical Co., Ltd. (吉聯(吉林)石油化學工業公司) for 23 years, where he was mainly involved in the transportation of chemicals. Mr. De joined our Group in March 2004 as a supervisor of the dispatch control centre, and was later promoted as the head of the production and operations planning department of Sanjiang Chemical. In June 2008, Mr. De was appointed and has since served as the head of sales department of Sanjiang Chemical. Further, from September 2007 to August 2008, Mr. De was also a production safety and technology consultant of the Jiaying Port Economic Development Zone.

**HAN Zongqi (韓宗奇)**, aged 47, is the head of the procurement department of our Company. Mr. Han is primarily responsible for the procurement management of our Group. Mr. Han graduated with a diploma in English at HuaZhong Normal University (華中師範大學) in 1984. Mr. Han has over 22 years of experience in the chemical industry. Prior to joining our Group, Mr. Han was employed at Hubei Jingxiang Phosphate Recycling Industry Park (湖北荊襄磷化循環產業園) for 17 years, during which he served as a deputy supervisor of the foreign affairs office, the head of equipment and facilities division, and the head of materials supply and spare parts division. From 2001 to 2004, Mr. Han was employed at CNNC Third Qinshan Nuclear Power Co., Ltd. (中核集團秦山第三核電有限公司), where he served as the supervisor of the test planning division and maintenance division of the production planning department. Mr. Han joined our Group in August 2005 as a deputy supervisor of the general manager's office and the deputy head of the procurement department of Sanjiang Chemical. In January 2009, Mr. Han was appointed and has since served as the manager of the procurement department and deputy supervisor of the general manager's office of Sanjiang Chemical.

**YIP Ngai Hang (葉毅恆)**, aged 32, is the financial controller and company secretary of our Group. Mr. Yip is primarily responsible for the overall planning, financial reporting and budgeting and implementing business strategies of our Group. Mr. Yip graduated with a bachelor's degree in Accounting with Honours from the University of Hertfordshire in the United Kingdom in 1999. Mr. Yip is currently an associate member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of Chartered Certified Accountants of the United Kingdom. Prior to joining our Group, Mr. Yip was employed at KPMG, an international accounting firm for over seven years. Mr. Yip joined our Group in June 2010.

## DIRECTORS AND SENIOR MANAGEMENT

### BOARD COMMITTEES

#### Audit Committee

We have established an audit committee with written terms of reference as suggested under the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

Our 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 our audit committee is Mr. Shen Kaijun.

The primary responsibilities of our audit committee include, among others, reviewing and supervising the financial reporting process and internal control system of our Company, nominating and monitoring external auditors and providing advice and comments to our Directors.

#### Remuneration Committee

We have established a remuneration committee with written terms of reference as suggested under the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

Our 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 Jianzhong is our chairman and an executive Director. The chairman of our remuneration committee is Mr. Li Zhihong.

The primary responsibilities of our remuneration committee include, among others, evaluating the performance and making recommendation on the remuneration package of our Directors and senior management, and evaluating and making recommendation on our share option scheme.

### COMPLIANCE ADVISER

Our Company will appoint Daiwa as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. According to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (i) with respect to the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including, without limitation, Share issues and Share repurchases;
- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of the Shares.

## **DIRECTORS AND SENIOR MANAGEMENT**

The term of the appointment shall commence on the Listing Date and end on the date when our Company distributes its annual report in relation to its financial results for the first full financial year commencing after the Listing Date.

### **SHARE OPTION SCHEME**

We have conditionally adopted the Share Option Scheme. The principal terms of our Share Option Scheme are summarised in the paragraph headed “Share Option Scheme” set out in Appendix VII to this prospectus.

### **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

The aggregate amount of remuneration paid by us to our Directors, including salaries, contributions to defined contribution benefit plans (including pensions) and discretionary bonuses, during the Track Record Period was approximately RMB508,000, RMB937,000, RMB1,376,000 and RMB512,000, respectively.

During the Track Record Period, the five individuals whose emoluments were the highest in our Group included one Director for the year ended 31 December 2007, three Directors for each of the two years ended 31 December 2009 and for the four months ended 30 April 2009, and four Directors for the four months ended 30 April 2010. The aggregate amount of emoluments payable to the five highest paid individuals, including salaries, contributions to defined contribution benefit plans (including pensions) and discretionary bonuses, during the Track Record Period was approximately RMB792,000, RMB455,000, RMB577,000 and RMB209,000, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the Track Record Period. None of our Directors has waived or agreed to waive any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable by us or any of our subsidiaries to our Directors in respect of the Track Record Period. We estimate that we will pay an aggregate amount of approximately RMB1,690,000 to our Directors as remuneration in respect of the year ending 31 December 2010, excluding any discretionary bonuses which may be paid to our Directors.

## WAIVERS FROM STRICT COMPLIANCE WITH LISTING RULES

### MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Currently, all of the business operation of our Group, including manufacturing, sale and research and development of our products, are located, managed and conducted in the PRC. Our Company does not and, in the foreseeable future, will not have any management presence in Hong Kong.

In light of the above, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver to us from strict compliance with Rule 8.12 of the Listing Rules. We have adopted the following arrangements in order to maintain regular and effective communication with the Stock Exchange:

- (a) We have appointed Mr. Guan, an executive Director (and Ms. Chen Xian, one of our senior management, as his alternate), and Mr. Yip Ngai Hang, the financial controller and company secretary of our Company, as our Company's authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange. Mr. Yip Ngai Hang is ordinarily resident in Hong Kong.
- (b) All Directors who are not ordinarily resident in Hong Kong possess valid travel documents to visit Hong Kong and can meet with the relevant members of the Stock Exchange within a reasonable period when required.
- (c) Each of the Directors will provide their respective mobile phone numbers, office phone numbers, e-mail addresses and fax numbers to the Stock Exchange.
- (d) Each of the authorised representatives (including the alternate authorised representative) has means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters.
- (e) Our Company has also retained Daiwa as our compliance adviser in accordance with Rule 3A.19 of the Listing Rules and to act as the additional channel of communication with the Stock Exchange.
- (f) Our Company will also appoint other professional advisers (including legal advisers and accountants) after Listing to assist us in dealing with any questions which may be raised by the Stock Exchange and to ensure that there will be efficient communication with the Stock Exchange.

### CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into certain transactions which would constitute non-exempt continuing connected transactions of our Company under the Listing Rules after Listing. We have applied to the Stock Exchange for, and the Stock Exchange has accordingly granted, a waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Please refer to the section headed "Connected transactions – Continuing connected transactions – Continuing connected transactions subject to reporting, announcement and independent shareholders' approval requirements" in this prospectus for details on the non-exempt continuing connected transactions.

## SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

### Authorised Share Capital

	<b>Authorised share capital (HK\$)</b>
5,000,000,000 Shares	500,000,000

### Share Capital upon completion of the Global Offering

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately following the conversion of the convertible preference shares in Sure Capital (“**Convertible Preference Shares**”) into Shares, the Global Offering and the Capitalisation Issue will be as follows:

	<i>HK\$</i>	<b>Approximate percentage of issued share capital (%)</b>
136,470 Shares in issue at the date of this prospectus	13,647	0.014%
18,000 Shares to be issued upon conversion of the Convertible Preference Shares	1,800	0.002%
756,748,530 Shares to be issued pursuant to the Capitalisation Issue <sup>(Note)</sup>	75,674,853	74.977%
252,400,000 Shares to be issued in the Global Offering	25,240,000	25.007%
<b>Total</b>	<b>100,930,300</b>	<b>100%</b>

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following the conversion of the Convertible Preference Shares into Shares, the Global Offering and the Capitalisation Issue will be as follows:

	<i>HK\$</i>	<b>Approximate percentage of issued share capital (%)</b>
136,470 Shares in issue at the date of this prospectus	13,647	0.013%
18,000 Shares to be issued upon conversion of the Convertible Preference Shares	1,800	0.002%
756,748,530 Shares to be issued pursuant to the Capitalisation Issue <sup>(Note)</sup>	75,674,853	72.267%
290,260,000 Shares to be issued in the Global Offering	29,026,000	27.719%
<b>Total</b>	<b>104,716,300</b>	<b>100%</b>

## SHARE CAPITAL

*Note:* Pursuant to the resolutions in writing of our Shareholders passed on 24 August 2010, our Directors were authorised to capitalise the amount of HK\$75,674,853 standing to the credit of the share premium account of our Company as a result of the Global Offering and apply such sum in paying up in full at par 756,748,530 Shares for allotment and issue to the persons whose names appear on the register of our Company immediately after (i) completion of the redemption of Convertible Preference Shares by Sure Capital and the issue and allotment of new Shares to the Preference Shares Investors; and (ii) the transfer of 1,080 Shares to the Ordinary Shares Investors by Sure Capital in accordance with the anti-dilution provisions contained in the agreement for subscription of ordinary Shares in our Company; but immediately before the issue and allotment of new Shares to subscribers pursuant to the Global Offering (or as they may direct) in proportion to its/their then existing shareholdings in our Company.

### Assumptions

The above tables assume that the Global Offering and the Capitalisation Issue have become unconditional. It takes no account of (a) any Shares which may be issued under the general mandate given to our Directors for the allotment and issue of Shares (see the section headed “Further information about our Company” as set out in Appendix VII to this prospectus); or (b) any Shares which may be repurchased by our Company pursuant to the Repurchase Mandate (see the section headed “Further information about our Company” as set out in Appendix VII to this prospectus); or (c) any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

### Ranking

The Offer Shares, including the Shares issuable pursuant to the Over-allotment Option, will rank *pari passu* in all respects with all other Shares in issue as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares on or after the date on which they are issued save with respect to entitlements under the Capitalisation Issue.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in the section headed “Statutory and general information – Other information – Share Option Scheme” in Appendix VII to this prospectus.

### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becomes unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares of our Company (otherwise than pursuant to, or in consequence of the Global Offering, a rights issue or pursuant to the exercise of options which may be granted under the Share Option Scheme, any scrip dividend scheme or similar arrangement, or any adjustment of rights to subscribe for Shares under options or warrants or a special authority granted by our Shareholders), with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of our issued share capital immediately following completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be issued upon the exercise of the Over-allotment Option or pursuant to any options which may be granted under the Share Option Scheme); and
- (ii) the aggregate nominal value of our issued share capital repurchased by us (if any) pursuant to the Repurchase Mandate.

## SHARE CAPITAL

This general mandate to issue Shares will expire:

- at the conclusion of our Company's next annual general meeting;
- upon expiration of the period within which we are required by law or our Articles to hold our next annual general meeting; or
- at the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting,

whichever is the earliest.

Please refer to the section headed "Further information about our Company – Resolutions in writing of our Shareholders passed on 24 August 2010" as set out in Appendix VII to this prospectus for further details on this general mandate.

### REPURCHASE MANDATE

Subject to the Global Offering becoming unconditional, our Directors have been granted the Repurchase Mandate, which is a general unconditional mandate to exercise all powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of our issued share capital immediately following completion of the Global Offering and the Capitalisation Issue (excluding Shares that may be issued upon the exercise of the Over-allotment Option or pursuant to any options which may be granted under the Share Option Scheme).

This Repurchase Mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the Listing Rules.

This Repurchase Mandate will expire:

- at the conclusion of our Company's next annual general meeting;
- upon expiration of the period within which we are required by law or our Articles to hold our next annual general meeting; or
- at the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting,

whichever is the earliest.

Please refer to the section headed "Further information about our Company – Repurchase by our Company of its own securities" as set out in Appendix VII to this prospectus for further details on this Repurchase Mandate.

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the following persons or entities will, immediately following the completion of the Global Offering and the Capitalisation Issue (excluding Shares that may be issued and allotted upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly and/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 our Company:

Name	Capacity/nature of interest	Number and class of securities <sup>(Note 1)</sup>	Approximate percentage of shareholding (%)
Sure Capital	Beneficial owner	459,375,000 Shares (L)	45.51
Mr. Guan	Interest of controlled corporation	459,375,000 Shares (L) <sup>(Note 2)</sup>	45.51
Ms. Han	Interest of spouse <sup>(Note 3)</sup>	459,375,000 Shares (L)	45.51

*Notes:*

1. The letter “L” denotes long position of the Shareholder in the Shares.
2. These Shares are held by Sure Capital, the entire issued ordinary shares of which are owned as to approximately 84.71% by Mr. Guan and 15.29% by Ms. Han, the spouse of Mr. Guan. By virtue of the SFO, Mr. Guan is deemed to be interested in the Shares held by Sure Capital.
3. Ms. Han is the spouse of Mr. Guan. By virtue of section 316 of the SFO, Ms. Han is deemed to be interested in the Shares in which Mr. Guan is interested for the purposes of Divisions 2 and 3 of Part XV of the SFO.

## FINANCIAL INFORMATION

**You should read this section in conjunction with our audited consolidated financial statements, including notes thereto, as set out in “Appendix I – Accountants’ Report”. The financial statements have been prepared in accordance with HKFRS, Hong Kong Accounting Standards issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements under Companies Ordinance.**

**The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. Please refer to the section headed “Risk factors” in this prospectus.**

### OVERVIEW

We are a manufacturer and supplier of consumer chemicals and their ingredients, namely ethylene oxide and AEO surfactants which are the core components for household cleansing and cosmetic products. According to the SAI Report, we were the third largest manufacturer and the largest privately-owned manufacturer of ethylene oxide in China in terms of production volume for the three years ended 31 December 2009. We are also the second largest manufacturer and the largest privately-owned manufacturer of AEO surfactants in China in terms of production volume in 2009. Ethylene oxide is an ethylene derivative product and is mainly used for production of surfactants, ethylene glycol, ethanolamines and glycol ethers in China. Our AEO surfactants are mainly used in the manufacture of household cleansing agents such as liquid detergents, cosmetics and ointments products.

In addition to ethylene oxide and AEO surfactants, we also manufacture and supply other types of surfactants products. We also engage in the provision of processing services for ethylene oxide and surfactants to our customers as well as the production and supply of other chemical products such as ethylene glycol and industrial gases, namely oxygen, nitrogen and argon.

During the Track Record Period, our revenue was approximately RMB876.8 million, RMB952.8 million, RMB1,285.5 million and RMB567.5 million, respectively, while our net profit attributable to equity holders of the parent was approximately RMB147.4 million, RMB139.1 million, RMB242.1 million and RMB78.7 million, respectively. Between 2007 and 2009, our revenue grew at a CAGR of 21.1% and our net profit attributable to equity holders of the parent grew at a CAGR of 28.2%.

## FINANCIAL INFORMATION

The following table sets forth our consolidated statements of income for each of the periods indicated, as derived from the Accountants' Report which are set out in Appendix I to this prospectus.

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
<b>Revenue</b>	876,774	952,847	1,285,533	368,423	567,483
Cost of Sales	(667,343)	(728,345)	(929,212)	(244,725)	(455,365)
<b>Gross profit</b>	209,431	224,502	356,321	123,698	112,118
Other income and gains	20,200	29,401	21,204	1,540	4,526
Selling and distribution cost	(757)	(3,005)	(2,966)	(739)	(523)
Administrative expenses	(22,696)	(30,827)	(37,473)	(9,420)	(10,774)
Other expenses	(1,291)	(2,000)	(336)	(70)	(370)
Finance costs	(34,360)	(36,736)	(32,915)	(12,673)	(5,898)
<b>Profit before tax</b>	170,527	181,335	303,835	102,336	99,079
Income tax expense	(839)	(19,500)	(43,673)	(15,765)	(20,383)
<b>Profit for the year/period</b>	<u>169,688</u>	<u>161,835</u>	<u>260,162</u>	<u>86,571</u>	<u>78,696</u>
<b>Attributable to:</b>					
Equity holders of the parent	147,358	139,081	242,075	81,525	78,668
Non-controlling interests	22,330	22,754	18,087	5,046	28
	<u>169,688</u>	<u>161,835</u>	<u>260,162</u>	<u>86,571</u>	<u>78,696</u>

### FACTORS AFFECTING RESULTS OF OPERATION

Our business, financial conditions and results of operations have been and will continue to be affected by a number of factors, including those set forth in the section headed "Risk factors" in this prospectus, some of which may not be within our control. The principal factors affecting our results of operations are set out below.

#### Demand for cleansing products

Demand for our ethylene oxide depends primarily on the consumption of non-ionic surfactants, which in turn, are driven by the non-ionic surfactant downstream industries, in particular, detergent and cleansing products manufacturers. According to the SAI Report, non-ionic surfactants accounted for approximately 60% of ethylene oxide consumption in China. Among the non-ionic surfactants produced in China, AEO surfactants accounted for approximately 50% in terms of production volume. AEO surfactants are consumed directly in the production of household liquid detergents and cleansers.

## FINANCIAL INFORMATION

China has experienced significant economic growth in recent years, achieving growth in GDP at a CAGR of 16% from 2005 to 2009. The rapid growth of the PRC economy has led to accelerated urbanisation and improving living standard. This, in turn, created growing demand for hygiene and cleansing products.

Our revenue increased from approximately RMB876.8 million in 2007 to approximately RMB1,285.5 million in 2009 at a CAGR of 21.1%. Comparing the four months ended 30 April 2009 with the same period in 2010, our revenue increased from approximately RMB368.4 million to approximately RMB567.5 million, representing a growth rate of 54.0%. According to the SAI report, the domestic demand for ethylene oxide is projected to grow at a CAGR of 17% from 2009 to 2014, reaching 1,564,017 MT or US\$2.8 billion in value by the end of 2014. With respect to AEO surfactants demand in the PRC, it is estimated to grow at a CAGR of 5% reaching 529,500 MT or US\$1.1 billion in value by 2014. Demand for ethylene oxide and surfactants is expected to remain strong as China becomes increasingly urbanised and industrialised.

### Production capacity

Our results of operations are affected by our production capacity. In order to accommodate the growing demand for ethylene oxide and product diversification, we have expanded, and will continue to expand our scale of operations by constructing new production lines, purchasing additional equipment and forming joint ventures for ethylene oxide production. During the Track Record Period, we had expanded our ethylene oxide production capacities by completing the construction of our second phase ethylene oxide production facilities at Sanjiang Production Plants in 2008. Our designed annual production capacity of ethylene oxide doubled from 60,000 MT in 2007 to 120,000 MT as of the Latest Practicable Date and our designed annual production capacity of surfactants increased from 18,000 MT in 2007 to 218,000 MT as of the Latest Practicable Date.

As part of our expansion plan, we intend to further increase our designed annual production capacity of ethylene oxide by 60,000 MT to reach an aggregate designed annual production capacity of 180,000 MT by early 2011 through the construction of our third phase ethylene oxide production facilities.

In May 2010, pursuant to the joint venture agreement and supplemental agreement dated 4 May 2010, we established a sino-foreign joint venture company, Sanjiang Honam, with Honam Petrochemical Corp which is an Independent Third Party. It is intended that Sanjiang Honam will principally engage in the production of ethylene oxide with a designed annual production capacity of approximately 200,000 MT and we are entitled to purchase 50% of all ethylene oxide produced by Sanjiang Honam, at cost.

We believe that our expansion plan 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.

### Product mix

Change in the mix of products and services we offer will impact our results of operations.

It has been our Group's strategy to expand our production capacities in both ethylene oxide and surfactants as well as other related products. We believe that we are able to diversify our risks by not placing undue reliance on the sales of a single product. With our vertically integrated production, we are able to adjust our product mix in ethylene oxide and surfactants by responding to the changes in market condition in terms of product pricing and customers' demand in a timely manner by resiliently switching between selling ethylene oxide to our customers and utilising the ethylene oxide manufactured by us to manufacture surfactants.

## FINANCIAL INFORMATION

During the Track Record Period, our gross profit margins were affected by our product mix.

According to the SAI Report, the demand for AEO surfactants exceeded domestic production volume in the PRC from 2007 to 2009 and it is estimated that the excess demand will continue to exist from 2010 to 2014. In view of the market potential and with an aim at reducing our reliance on single product, the Group began to develop the surfactant business during the Track Record Period.

Our revenue from the sales of surfactants increased at a CAGR of 164.8% from 2007 to 2009 while our revenue from sales of ethylene oxide increased at a CAGR of 7.9% for the same period. As a result of the increase in total revenue, the total gross profit of the Group also increased from 2007 to 2009.

Our overall gross profit margin increased in 2007 to 2009. This was mainly attributed by the increase in the gross profit margin of ethylene oxide from 23.1% in 2007 to 29.9% in 2009. Although the gross profit margin of ethylene oxide was higher than that of surfactants, the revenue growth of surfactants exceeded the revenue growth of ethylene oxide from 2007 to 2009.

During the four months ended 30 April 2010, after considering the market demand for ethylene oxide and surfactants, the Group increased the sales proportion of ethylene oxide in response to the increasing market demand and selling price of ethylene oxide. Comparing the four months ended 30 April 2009 with the same period in 2010, our sales of ethylene oxide increased from approximately RMB231.7 million to approximately RMB472.0 million, representing an increase of approximately 103.7%. Our sales of surfactants decreased from approximately RMB67.1 million to approximately RMB63.1 million, representing a decrease of approximately 6.0%. The proportion of sales of ethylene oxide increased and constituted approximately 83.2% of the total revenue for the four months ended 30 April 2010 as compared with 62.9% for the same period in 2009. The sales of ethylene oxide was a primary driver to the increase in total revenue for the four months ended 30 April 2010 as compared with the same period in 2009.

The overall gross profit margin of the Group decreased from approximately 33.6% for the four months ended 30 April 2009 to approximately 19.8% for the four months ended 30 April 2010, which was primarily due to the decrease in the gross profit margin of ethylene oxide from approximately 36.5% to 20.2% for the same period. The decrease in gross profit margin of ethylene oxide was primarily due to the increase in the average cost of ethylene as a result of the increase in average international crude oil prices during the four months ended 30 April 2010 as compared with the same period in 2009. Other supplementary factors contributing to the increase in ethylene prices was the 2% additional customs levy imposed on the imported ethylene by the General Administration of Customs of the PRC starting from 1 January 2010, and the decrease in the overall supply of ethylene from overseas into the PRC market. During the first four months of 2010, certain major overseas ethylene manufacturers suspended production of ethylene as they underwent maintenance for over one month, such suspension of ethylene production by those overseas ethylene manufacturers resulted in tighter overall ethylene supplies from overseas into the PRC market. As a result of the aforesaid, the market prices of ethylene increased during the four months ended 30 April 2010 as compared with that for the four months ended 30 April 2009 and our gross profit margin was adversely affected. While the increase in the selling price of ethylene oxide was less than the increase in ethylene price, our gross profit margin decreased accordingly. Generally, ethylene manufacturers in Japan carry out maintenance about once every one to four years. In order to mitigate the impact arising from the shortage in supply of ethylene, our Group has installed a storage tank for ethylene with a storage capacity of approximately 22,000 cubic metres of ethylene which was the largest ethylene storage tank in China in terms of storage capacity as of 30 April 2010 according to the

## FINANCIAL INFORMATION

SAI Report. In the second quarter of 2010, we commenced the construction of an additional ethylene storage tank with a storage capacity of approximately 22,000 cubic metres. We anticipate that the construction will be completed by the second quarter of 2011. In addition, we also source ethylene supply from at least three suppliers so as to avoid placing undue reliance on a single supplier. We also enter into legally binding contracts with most of our suppliers on a yearly basis in order to secure a stable supply of ethylene. Accordingly, during the aforesaid suspension of ethylene production by certain major overseas ethylene manufacturers, our ethylene suppliers were still committed to supply agreed quantities of ethylene to our Group. As such, we were able to secure a stable supply of ethylene and did not experience any shortage of raw materials during the four months ended 30 April 2010. Although such suspension in production resulted in tighter overall ethylene supplies from overseas into the PRC market, the impact on the sales volume of our ethylene oxide was minimal.

The gross profit margin of surfactants increased from 11.2% for the four months ended 30 April 2009 to 15.2% for the four months ended 30 April 2010, primarily due to the fact that the increase in selling prices of surfactants was greater than the increase in costs. Despite the increase in gross profit margin of surfactants during the four months ended 30 April 2010, taking into account the fact that ethylene oxide had a higher gross profit margin than that of surfactants, our Group, amid the growth of market demand for ethylene oxide, decided to increase the proportion of sales of ethylene oxide to satisfy customers' orders.

### **Pricing of our products**

The prices of ethylene oxide and surfactants are agreed between our customers and us with reference to the prevailing market prices of ethylene oxide and surfactants respectively. Our surfactant processing fees are agreed between our customers and us with reference to our costs of auxiliary raw materials, energy, utilities and labour plus a profit margin. In light of the highly combustible and inflammable nature rendering the transportation of ethylene oxide highly difficult, all our sales are made domestically in the PRC. Accordingly, our profitability is affected by the prevailing market prices of ethylene oxide in the PRC and price volatility of raw materials. During the Track Record Period, the average selling price of our ethylene oxide was approximately RMB12,218.8 per MT, RMB12,827.3 per MT, RMB8,502.8 per MT and RMB10,357.8 per MT, respectively while the average selling price of our surfactants was RMB10,776.7 per MT, RMB13,482.2 per MT, RMB8,921.7 per MT and RMB10,477.8 per MT, respectively. Our surfactants processing services were charged at an average fee of approximately RMB435.9 per MT and our ethylene oxide processing services were charged at an average fee of approximately RMB3,419.0 per MT during the Track Record Period.

### **Ethylene prices and crude oil prices**

Our major source of revenue is generated from the sales of ethylene oxide and surfactants as well as provision of surfactants processing services. The principal raw material for the production of ethylene oxide is ethylene, and ethylene oxide is in turn one of the major raw materials for surfactant production. Since ethylene is one of the chemical products derived from crude oil, the price of ethylene is directly affected by crude oil prices.

We principally source and purchase ethylene from suppliers in Japan. The price of ethylene is agreed between our suppliers and us with reference to the CFR price quoted by ICIS at the time the purchase orders are placed. The price quotations from ICIS are based on information gathered from a wide cross-section of the relevant markets, comprising consumers, producers, traders and distributors. Accordingly, our purchase price of ethylene is subject to the fluctuations of international crude oil prices instead of the crude oil prices in the PRC.

During the Track Record Period, international crude oil prices experienced significant volatility. In 2007, based on the Brent Crude Oil Price, crude oil prices in international markets increased from the range of approximately US\$57.2 to US\$68.4 per barrel in the first quarter of 2007 to the range of approximately US\$90.3 to US\$93.9 per barrel in the last quarter of 2007. In 2008, the crude oil prices continued to increase from the range of approximately US\$92.6 to US\$100.2 per barrel in the first quarter of 2008 and reached a peak-high range of approximately US\$110.6 to US\$139.3 per barrel in mid-2008. The crude oil prices then fell to the range of approximately US\$41.8 to US\$64.4 per barrel in the last quarter of 2008. The crude oil price started to rebound in 2009, increasing from the range of approximately US\$44.9 to US\$47.7 per barrel in the first quarter of 2009 to the range of approximately US\$74.4 to US\$77.2 per barrel in the last quarter of 2009. The crude oil prices in 2009, on average, maintained at a relatively low level as compared with that in 2008. In the first four months of 2010, the crude oil prices fluctuated within a range of approximately US\$70.5 to US\$86.0 per barrel. The fluctuations in crude oil prices, in turn, translated into volatility of the price of ethylene.

The fluctuation of ethylene price was closely correlated with the fluctuation of crude oil price. As a result, when the crude oil price increased, the cost of sales of our Company increased accordingly. However, in general, the extent of fluctuation of ethylene price was lesser with the change reflected in a one-to-two-month time lag as compared with the change of crude oil price. This was primarily due to the fact that apart from crude oil price, the prevailing market price of ethylene was also influenced by a number of other factors, including transportation cost, storage cost, supply and demand for ethylene and downstream products.

While ethylene oxide and surfactants are downstream products of ethylene, fluctuation of ethylene price has direct effect on the prices of ethylene oxide and surfactants. Accordingly, the prices of ethylene oxide and surfactants are closely correlated with the fluctuations of crude oil prices, but to a much lesser extent as compared with the impact on ethylene prices since the prices of ethylene oxide and surfactants are influenced by a number of product specific factors including PRC government policies, pricing of state-owned enterprises, supply and demand of downstream products, such as household and industrial detergent products.

## FINANCIAL INFORMATION

During the Track Record Period, the cost of ethylene we consumed for sales amounted to approximately RMB525.9 million, RMB536.8 million, RMB577.4 million and RMB347.7 million respectively, representing approximately 78.8%, 73.7%, 62.1% and 76.4% of the cost of sales respectively. The average cost of ethylene we consumed for sales for the Track Record Period was RMB9,177.3 per MT, RMB9,477.4 per MT, RMB5,710.0 per MT and RMB8,734.2 per MT, respectively.

We do not engage in any hedging transactions to protect us against ethylene price fluctuations. We typically attempt to reflect increases in prices of ethylene and other raw materials in our product prices. However, to the extent that we cannot pass on these raw materials price increases to our customers, we strive to absorb the additional production costs by implementing cost control and other production measures. In the event that we cannot pass on any increase in raw material costs to our customers or offset such increase through various cost control measures, our results of operations may be negatively affected. Please refer to the sections headed “Risk factors – Risks relating to our business – Any shortage in supply of raw materials or fluctuation in the prices of our raw materials may adversely affect our profit margins and results of operation” and “Risk factors – Risks relating to our business — We experienced a decrease in gross profit margin for the four months ended 30 April 2010” in this prospectus for further details.

### **Demand for ethylene oxide and AEO Surfactants**

According to the SAI Report, the demand for ethylene oxide and non-ionic surfactants, such as AEO surfactants remained strong in the PRC. The domestic demand for ethylene oxide consumed the entire production volume of ethylene oxide in the PRC, while the AEO surfactants demand well exceeded the domestic production volume of AEO surfactants in the PRC.

Our Group’s revenue growth during the Track Record Period was mainly resulted from the increase in our Group’s production capacity which was driven by the high demand for ethylene oxide in the market. Sales volume of our Group’s ethylene oxide and surfactants grew by a CAGR of 29.3% and 191.0% respectively, from 2007 to 2009. In light of the fact that the demand for ethylene oxide and AEO surfactants in the PRC fully absorbed the domestic production volume, our Group expanded our production capacities in both ethylene oxide and surfactants during the Track Record Period in order to tap the markets.

## FINANCIAL INFORMATION

### Finance costs

A portion of our business and expansion projects is financed by short-term and long-term bank borrowings. The finance costs and the ranges of interest rates per annum on our bank borrowings during the Track Record Period are set forth below:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
				(unaudited)	
Finance costs (RMB'000)	34,360	36,736	32,915	12,673	5,898
Short-term bank borrowings					
interest rate (%)	5.060 – 8.019	3.663-7.743	1.184 – 8.127	N/A	0.282 - 5.045
Current portion of long-term bank					
borrowings (%)	–	5.387-8.033	7.371-8.127	N/A	–
Long-term bank borrowings					
interest rate (%)	7.749-8.033	7.749-8.694	7.371 – 8.280	N/A	4.860 - 6.831

Please refer to the section headed “Financial information – Indebtedness” in this prospectus for details.

In order to finance our future expansion plans, we may need to draw further bank facilities or to utilise other financing methods such as issuing capital market instruments. Accordingly, the total balance of bank borrowings, funds raised through other financing methods and any interest rate fluctuations will have an impact on our finance costs, which in turn could affect our results of operations and financial condition.

### Taxation

We have not made any provision for Hong Kong profits tax as we had no taxable income in Hong Kong during the Track Record Period. Our subsidiaries operating in the PRC are subject to CIT on their taxable income in accordance with the relevant PRC tax laws and regulations.

Prior to 1 January 2008, PRC entities are, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. After the CIT Law became effective on 1 January 2008, the CIT rate was reduced from 33% to 25% which applied to both domestic and foreign enterprises. The financial impact on our Group as a result of the reduction of CIT rate was a saving of income tax of approximately RMB7.3 million, RMB5.5 million and RMB2.5 million for the years ended 31 December 2008 and 2009 and for the four months ended 30 April 2010 respectively.

## FINANCIAL INFORMATION

Two of our subsidiaries, namely Sanjiang Chemical and Yongming Petrochemical, are entitled to a tax holiday of a two-year full exemption followed by a three-year 50% exemption commencing from their respective first profit-making year after off-setting accumulated tax losses, if any. The first profitable year of Sanjiang Chemical was 2006. Under the CIT Law, an enterprise would be deemed to trigger the tax holiday from 1 January 2008 notwithstanding that the enterprise concerned had made profit or not. Accordingly, although Yongming Petrochemical had not made profits in 2008, it started to enjoy its tax holiday in 2008. The other two subsidiaries, namely Sanjiang Trading and Guanlang, are subject to the CIT rate of 33% in 2007 and 25% since 2008. With respect to Hangzhou Sanjiang, it is subject to the CIT rate of 25% since its establishment in 2010.

The table below sets out the applicable CIT rate of our operating subsidiaries in the PRC:

Subsidiary	Applicable tax rate (%)			
	2007	2008	2009	2010
Sanjiang Chemical	—(Note 1)	12.5	12.5	12.5
Yongming Petrochemical	—(Note 2)	—(Note 1)	—(Note 1)	12.5
Guanlang	33	25	25	25
Sanjiang Trading	33	25	25	25
Hangzhou Sanjiang	—(Note 3)	—(Note 3)	—(Note 3)	25

*Notes:*

- (1) Exempted from paying tax during the year.
- (2) Yongming Petrochemical did not have assessable profit in 2007.
- (3) Hangzhou Sanjiang was established in 2010. Accordingly, it is not subject to tax from 2007 to 2009.

During the Track Record Period, our income tax expenses were RMB0.8 million, RMB19.5 million, RMB43.7 million and RMB20.4 million, respectively and our effective tax rate was 0.5%, 10.8%, 14.4% and 20.6%, respectively. The application of PRC tax laws (including any termination or revision of the preferential tax treatments that we currently enjoy) has had and will continue to have an impact on our tax expenses, results of operations and financial conditions.

## FINANCIAL INFORMATION

### BASIS OF PRESENTATION

The consolidated financial statements of the Group in the Accountants' Report as set out in Appendix I to this prospectus have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirement of the Companies Ordinance.

Pursuant to 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. Since Mr. Guan and Ms. Han controlled the Group before and after the Reorganisation, the Reorganisation is accounted for as reorganisation under common control using the principles of merger accounting in accordance with the Accounting Guidelines 5 "Merger Accounting for Common Control Combinations" issued by HKICPA.

As part of the Reorganisation, on 1 April 2010, the Group acquired, among other things, the ethylene oxide trading and surfactant manufacturing and sale business (the "**Acquired Business**") from Hangzhou Haoming (the "**Hangzhou Haoming Business Acquisition**"). Under the terms of the agreements, the Group also acquired the production facilities, inventories and other assets and liabilities relating to the Acquired Business (the "**Net Assets Acquired**"). The land use right, buildings and motor vehicles relating to the Acquired Business (the "**Assets Retained**") and other assets and liabilities unrelated to the Acquired Business have been retained by Hangzhou Haoming. As the Assets Retained were related to the Acquired Business, the financial information combined the Net Assets Acquired, the Assets Retained and the results of operations relating to the Acquired Business using merger accounting as Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han before and after the Reorganisation. Except for the assets and liabilities acquired by the Group, the Assets Retained which were leased by the Group have been reflected as a distribution to the equity holders in the consolidated statement of changes in equity on the acquisition date of Hangzhou Haoming Business Acquisition.

The financial information which is based on the audited consolidated financial statements of the companies now comprising the Group includes the consolidated statements of income, comprehensive income, changes in equity, cash flows and financial position of the companies now comprising the Group, as if the current group structure resulted from the Reorganisation had been in existence throughout the Track Record Period, or since their respective dates of incorporation, whichever is the shorter period. All significant intragroup transactions and balances have been eliminated on consolidation.

## **CRITICAL ACCOUNTING POLICIES**

### **Revenue recognition**

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

- (a) from the sale of goods – when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from rendering of processing services – when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity;
- (c) rental income – on a time proportion basis over the lease terms; and
- (d) interest income – on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

### **Property, plant and equipment**

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

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

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

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

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

## FINANCIAL INFORMATION

### Loans and receivables

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

### Inventories

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

## PRINCIPAL COMPONENTS OF RESULTS OF OPERATIONS

### Revenue

Our Group is mainly engaged in the manufacture and sale of ethylene oxide and surfactants. We also engage in the provision of ethylene oxide and surfactants processing services and supply of other chemical products such as ethylene glycol and industrial gases.

The following table sets forth a breakdown of our revenue during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2007		2008		2009		2009		2010	
	RMB million	%	RMB million	%	RMB million	%	RMB million	%	RMB million	%
	(unaudited)									
Sales of ethylene oxide	795.2	90.7	829.3	87.0	925.1	72.0	231.7	62.9	472.0	83.2
Sales of surfactants	30.9	3.5	46.8	4.9	216.6	16.8	67.1	18.2	63.1	11.1
Processing services	3.4	0.4	9.7	1.0	66.4	5.2	54.2	14.7	5.2	0.9
Others <sup>(Note)</sup>	47.3	5.4	67.0	7.1	77.4	6.0	15.4	4.2	27.2	4.8
Total	876.8	100.0	952.8	100.0	1,285.5	100.0	368.4	100.0	567.5	100.0

*Note:* Others mainly comprised of sales from ethylene glycol, ethylene, nitrogen, oxygen and argon.

## FINANCIAL INFORMATION

During the Track Record Period, ethylene oxide and surfactants maintained as our major products. Following the expansion of our ethylene oxide production capacity in 2008, we had diversified to produce more surfactants. Our reliance on sales of ethylene oxide was reduced and the proportion of sales of ethylene oxide to our total revenue decreased from 90.7% in 2007 to 72.0% in 2009. While sales of surfactants commanded a smaller proportion of revenue from 2007 to 2009, its share over our total revenue increased from 3.5% in 2007 to 16.8% in 2009. After considering the market demand for ethylene oxide and surfactants, we increased the proportion of sales of ethylene oxide from 72.0% in 2009 to 83.2% for the four months ended 30 April 2010 whereas the proportion of sales of surfactants decreased from 16.8% to 11.1% for the same period.

We also provide ethylene oxide and surfactants processing services to our customers. During the Track Record Period, the proportion of revenue derived from processing services grew from 0.4% in 2007 to 5.2% in 2009, then decreased to 0.9% for the four months ended 30 April 2010. In 2009, in view of the uncertainty arising from the financial crisis, we provided ethylene oxide processing services to a major customer, but we did not engage in such processing services in 2010. Accordingly, the proportion of revenue derived from total processing services decreased to 0.9% for the four months ended 30 April 2010.

With respect to the manufacture and processing services of surfactants, we manufacture all the required ethylene oxide, one of the principal raw materials for our surfactant production in-house and do not have to source ethylene oxide from external suppliers. During the Track Record Period, approximately 1,426.0 MT, 2,982.0 MT, 15,274.0 MT and 4,033.0 MT of ethylene oxide manufactured by us were utilised for production of surfactants (excluding surfactant processing services), representing approximately 2.2%, 4.4%, 10.9% and 8.2% of our total production volume of ethylene oxide respectively. The said ethylene oxide manufactured for self-consumption, based on production costs, amounted to approximately RMB13.4 million, RMB28.7 million, RMB91.1 million and RMB33.3 million respectively during the Track Record Period.

During the Track Record Period, our sales volume increased as the demand for our products increased. From 2007 to 2009, our aggregate volume of ethylene oxide sold and the volume of ethylene oxide processed increased by approximately 91.3% from 65,078.0 MT in 2007 to 124,473.0 MT in 2009 and comparing the four months ended 30 April 2009 with the same period in 2010, our aggregate volume of ethylene oxide sold and ethylene oxide processed increased by approximately 7.8% from 42,277.0 MT to 45,571.0 MT. Total volume of ethylene oxide processing services amounted to 15,672.0 MT in 2009. We did not engage in ethylene oxide processing services in 2007 and 2010 respectively.

## FINANCIAL INFORMATION

With respect to surfactants, from 2007 to 2009, our aggregate volume of surfactants sold and the volume of surfactants processed increased by approximately 405.6% from 10,615.7 MT to 53,675.0 MT and comparing the four months ended 30 April 2009 with the same period in 2010, our aggregate volume of surfactants sold and surfactants processed increased by approximately 2.3% from 17,498.0 MT to 17,905.4 MT. Total volume of surfactants processed for the provision of processing services, increased by approximately 279.4% from 7,749.0 MT in 2007 to 29,399.0 MT in 2009. Comparing the four months ended 30 April 2009 with the same period in 2010, the sales volume of surfactants processing services increased by approximately 27.1% from 9,349.0 MT to 11,886.0 MT.

The following table sets forth the sales volume and average selling price of our major products and services during the Track Record Period:

Sales volume	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	<i>MT</i>	<i>MT</i>	<i>MT</i>	<i>MT</i>	<i>MT</i>
Ethylene oxide	65,078.0	64,649.0	108,801.0	29,198.0	45,571.0
Surfactants	2,866.7	3,470.0	24,276.0	8,149.0	6,019.4
Ethylene oxide processing services	–	939.0	15,672.0	13,079.0	–
Surfactants processing services	7,749.0	14,793.0	29,399.0	9,349.0	11,886.0
Average selling price	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	<i>RMB/MT</i>	<i>RMB/MT</i>	<i>RMB/MT</i>	<i>RMB/MT</i>	<i>RMB/MT</i>
Ethylene oxide	12,218.8	12,827.3	8,502.8	7,934.6	10,357.8
Surfactants	10,776.7	13,482.2	8,921.7	8,238.3	10,477.8
Ethylene oxide processing services	–	3,419.1	3,418.8	3,832.6	–
Surfactants processing services	435.9	435.9	435.9	435.9	435.9

## FINANCIAL INFORMATION

Since the price of ethylene oxide is closely correlated with the price of ethylene, which is, in turn, affected by the fluctuations in international crude oil prices and the price of surfactants depends primarily on the price of ethylene oxide as well as the supply and demand of surfactants, the change in the average selling prices of ethylene oxide and surfactants were, in general, in line with the volatility of the international crude oil prices during the Track Record Period. Please refer to the subsection headed “Factors affecting results of operation – Ethylene prices and crude oil prices” in this section for further details. With respect to the ethylene oxide and surfactant processing services we provide, the processing fees we charge are relatively steady as compared with the average selling prices of ethylene oxide and surfactants. The processing fees are generally charged based on the costs of auxiliary raw materials, amount of oxygen consumed and labour costs.

### Cost of sales

Cost of sales included raw materials, utilities, direct labour and manufacturing overhead. During the Track Record Period, our cost of sales were approximately RMB667.3 million, RMB728.3 million, RMB929.2 million and RMB455.4 million respectively, representing approximately 76.1%, 76.4%, 72.3% and 80.2% of our revenues respectively.

The following table sets forth our cost of sales as an approximate percentage of the total cost of sales during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	%	%	%	(unaudited) %	%
Raw materials	81.2	76.9	71.2	63.7	80.5
Utilities	10.4	13.6	17.8	22.3	11.8
Direct labour	0.3	0.4	0.8	1.2	0.7
Manufacturing overhead	3.7	3.5	3.2	3.7	2.0
Others	4.4	5.6	7.0	9.1	5.0
<b>Total cost of sales</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The major components in the cost of sales were raw material cost, principally, ethylene and cost in utilities, principally electricity. During the Track Record Period, the cost of ethylene commanded 78.8%, 73.7%, 62.1% and 76.4% of the total cost of sales, respectively. The electricity cost occupied approximately 8.3%, 10.3%, 12.4% and 8.3% of the total cost of sales, respectively. Others mainly included depreciation expenses.

## FINANCIAL INFORMATION

### Gross profit

The following table sets forth our Group's revenue, cost of sales and gross profit as well as the percentage of our total revenue during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
		%		%		%		%		%
	2007	of total revenue	2008	of total revenue	2009	of total revenue	2009	of total revenue	2010	of total revenue
	RMB million		RMB million		RMB million		RMB million (unaudited)		RMB million	
Revenue	876.8	100.0%	952.8	100.0%	1,285.5	100.0%	368.4	100.0%	567.5	100.0%
Cost of sales	(667.3)	76.1%	(728.3)	76.4%	(929.2)	72.3%	(244.7)	66.4%	(455.4)	80.2%
Gross profit	209.5	23.9%	224.5	23.6%	356.3	27.7%	123.7	33.6%	112.1	19.8%

During the Track Record Period, as the cost of our principal raw material, ethylene, experienced significant price volatility as driven by the fluctuations in international crude oil prices, we were able to pass on a portion of the costs to our customers and reduce unit production fixed cost due to economies of scale when our production capacity was expanded. However, our gross profit margin was affected by the volatility in raw material price movement.

The following table sets forth the approximate gross profit margins of our major products during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
				(unaudited)	
Ethylene oxide	23.1%	25.0%	29.9%	36.5%	20.2%
Surfactants	27.5%	15.2%	18.1%	11.2%	15.2%

With respect to our ethylene oxide sales business, gross profit margin increased from 23.1% in 2007 to 29.9% in 2009. Although the average selling price decreased by approximately 30.4% from RMB12,218.8 per MT in 2007 to RMB8,502.8 per MT in 2009, the average cost of ethylene decreased to a larger extent as compared with the decrease in average selling price. The average cost of ethylene we consumed for sales decreased by approximately 37.8% from RMB9,177.3 per MT in 2007 to RMB5,710.0 per MT in 2009. The gross profit margin for our ethylene oxide decreased from 36.5% for the four months ended 30 April 2009 to 20.2% for the four months ended 30 April 2010. The average cost of ethylene increased by approximately 79.6% from RMB4,861.8 per MT for the four months ended 30 April 2009 to RMB8,734.2 per MT for the four months ended 30 April 2010, primarily due to the increase in international crude oil prices from the range of US\$44.9 to US\$49.1 per barrel for the first four months in 2009 to the range of US\$70.5 to US\$86.0 per barrel in the first four months of 2010. Other

## FINANCIAL INFORMATION

supplementary factors contributing to the increase in cost of ethylene were the additional 2% customs levy imposed on import of ethylene by the General Administration of Customs of the PRC starting from 1 January 2010, and the decrease in overall ethylene supply as certain major overseas ethylene manufacturers suspended production in order to carry out maintenance in the first four months of 2010. The regular maintenance carried out by certain major overseas ethylene manufacturers affected the overall supply of ethylene from overseas into the PRC market which, together with the increase in international crude oil prices, translated into an increase in the market prices of ethylene during the four months ended 30 April 2010 as compared with that for the four months ended 30 April 2009. Although the average ethylene price during the four months ended 30 April 2010 was higher than that for the same period in 2009, the ethylene price experienced a decrease in early 2010 followed by a rebound in early March 2010. With reference to the price chart on ethylene spot CFR price under the section headed “Industry overview – China’s ethylene oxide market – Pricing of ethylene oxide and raw materials sourcing in China” in this prospectus, the ethylene spot CFR price decreased from January to March 2010 and then increased from March to April 2010. This was primarily due to the fact that movement in market prices of ethylene, in general, are correlated with the fluctuations of international crude oil prices with one to two months time lag. Accordingly, when the international crude oil prices decreased from November 2009 to January 2010 and then increased from January to April 2010, the corresponding decreasing effect on the ethylene prices reflected in early 2010. The rebound in ethylene price in early March 2010 was primarily due to the increase in the international crude oil prices and the effect of suspension of production of certain major overseas ethylene manufacturers as discussed above. Despite the aforesaid suspension, our Group had not experienced any shortage of ethylene during the period as we were able to secure a stable supply of ethylene by entering into legally binding contracts with most of our major suppliers on a yearly basis and by storing ethylene in order to avoid short-term shortage in ethylene supply. Therefore, only our gross profit margin was adversely affected. As a result of the above, the cost of sales of ethylene oxide increased by approximately 156.1% from RMB147.1 million for the four months ended 30 April 2009 to RMB376.7 million for the four months ended 30 April 2010 whereas the average selling price of our ethylene oxide increased by a lesser degree of approximately 30.5% from RMB7,934.6 per MT to RMB10,357.8 per MT for the same period. As a result, the gross profit margin of our ethylene oxide decreased from 36.5% to 20.2% for the same period.

With respect to our surfactants sales business, our gross profit margin for our surfactants decreased from 27.5% in 2007 to 15.2% in 2008 and increased to 18.1% in 2009. The decrease in gross profit margin in 2008 was primarily due to the increase in overheads such as depreciation expenses arising from our additional a new production line. The gross profit margin was subsequently improved in 2009 as the sales volume of surfactants increased substantially thereby reducing the average fixed costs per unit of surfactant. The gross profit margin for our surfactants increased from 11.2% for the four months ended 30 April 2009 to 15.2% for the four months ended 30 April 2010. During the four months ended 30 April 2010, the average selling price of surfactants increased by approximately 27.2% while the unit cost of surfactant increased by approximately 21.5%. Consequently, the gross profit margin of our surfactants increased to 15.2% for the four months ended 30 April 2010.

### **Other income and gains**

Other income and gains mainly include interest income derived from time deposits with banks, government subsidies, foreign exchange gains and sales of raw materials.

### **Selling and distribution costs**

Selling and distribution costs comprise primarily salary and staff benefits of the sales and marketing personnel and transportation expenses.

## FINANCIAL INFORMATION

### **Administrative expenses**

Administrative expenses mainly represent salary and staff benefits of administrative personnel, depreciation, bank commission charges, land use surcharges, entertainment expenses, traveling expenses, utilities and consumables.

### **Finance costs**

Finance costs primarily include the interest expenses for interest bearing bank borrowings.

### **Tax**

Our tax charges mainly represent the corporate income tax and deferred income tax.

## **ANALYSIS OF RESULTS OF OPERATIONS**

### **Four months ended 30 April 2010 compared with the four months ended 30 April 2009**

#### ***Revenue***

Our revenue increased by approximately 54.0% from approximately RMB368.4 million for the four months ended 30 April 2009 to approximately RMB567.5 million for the four months ended 30 April 2010. The increase in revenue was mainly contributed by the increase in sales of ethylene oxide.

Sales of our ethylene oxide increased by approximately 103.7% from approximately RMB231.7 million for the four months ended 30 April 2009 to approximately RMB472.0 million for the four months ended 30 April 2010. The increase in revenue was mainly attributable to the increase in the market demand of ethylene oxide, primarily due to the recovery of the PRC economy from the financial crisis in 2009. Our sales volume of ethylene oxide increased by approximately 56.1% from 29,198.0 MT for the four months ended 30 April 2009 to 45,571.0 MT for the four months ended 30 April 2010 and the average selling prices of our ethylene oxide increased by approximately 30.5% from RMB7,934.6 per MT for the four months ended 30 April 2009 to RMB10,357.8 per MT for the four months ended 30 April 2010 which was in line with the increase in international crude oil prices.

Sales of our surfactants decreased by approximately 6.0% from approximately RMB67.1 million for the four months ended 30 April 2009 to approximately RMB63.1 million for the four months ended 30 April 2010. Such decrease was primarily 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. In order to secure a steady stream of revenue for our newly expanded surfactant production capacities, we enter 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. Furthermore, we increased our sales of ethylene oxide in 2010 which resulted in less ethylene oxide being allocated for surfactants sales thereby decreasing our sales volume of surfactants. Our sales volume of surfactants decreased by approximately 26.1% from 8,149.0 MT for the four months ended 30 April 2009 to 6,019.4 MT for the four months ended 30 April 2010. The decrease in sales volume was partially offset by the increase in our average selling price of surfactants which increased by approximately 27.2% from RMB8,238.3 per MT for the four months ended 30 April 2009 to RMB10,477.8 per MT for the four months ended 30 April 2010.

## FINANCIAL INFORMATION

Sales of our processing services decreased by approximately 90.4% from approximately RMB54.2 million for the four months ended 30 April 2009 to approximately RMB5.2 million for the four months ended 30 April 2010. The decrease was primarily due to the fact that we provided ethylene oxide processing services during the four months ended 30 April 2009 generating approximately RMB50.1 million of sales in view of the uncertainty arising from the financial crisis whereas we did not engage in such processing services in 2010. In late 2008, as a result of the financial crisis, we were uncertain about the development of the PRC ethylene oxide industry in 2009 as well as the demand for our products. Taking into account the increased annual production capacity of ethylene oxide by the end of 2008 and the uncertainty on our business in 2009, we decided to temporarily provide ethylene oxide processing services to one of our major ethylene oxide customers with a term of 3 months from 1 December 2008 to 28 February 2009 (which was renewed to a further 3 months to 31 May 2009) in order to secure revenue and the utilisation of our new production line. Pursuant to the ethylene oxide processing service agreement, our customer was responsible for the supply of ethylene and we charged our processing fee based on the cost of auxiliary raw materials, volume of oxygen consumed and labour costs per MT of ethylene oxide. In the second half of 2009, due to the gradual economic recovery, we are more optimistic about our business prospect and accordingly, we ceased to provide ethylene oxide processing services and redeployed our resources to our core business of sale of ethylene oxide and surfactants. The decrease in sales of our ethylene oxide processing services for the four months ended 30 April 2010 was partially offset by the increase in surfactants processing services which we secured certain major surfactant customers for the sales of our surfactants processing services in 2010. Our volume of surfactants processed increased by approximately 27.1% from 9,349.0 MT for the four months ended 30 April 2009 to 11,886.0 MT for the four months ended 30 April 2010.

### *Cost of sales*

Cost of sales increased by approximately 86.1% from approximately RMB244.7 million for the four months ended 30 April 2009 to approximately RMB455.4 million for the four months ended 30 April 2010. The increase was primarily due to the increase in the average cost of ethylene which was predominantly resulted from the increase in international crude oil prices. Other supplementary factors included the decrease in overall supply of ethylene from overseas into the PRC market as certain major overseas ethylene suppliers suspended production for regular maintenance in the first four months of 2010 and the additional 2% levy imposed on import of ethylene by the General Administration of Customs of the PRC starting from 1 January 2010.

### *Gross profit*

As a result of the foregoing, gross profit decreased by approximately 9.4% from approximately RMB123.7 million for the four months ended 30 April 2009 to approximately RMB112.1 million for the four months ended 30 April 2010. The gross profit margin decreased from 33.6% for the four months ended 30 April 2009 to 19.8% for the four months ended 30 April 2010.

The decrease in gross profit margin was mainly due to the fact that the extent of the increase in cost of sales was larger than the increase in average selling prices of ethylene oxide as well as the increase in sales volume of ethylene oxide.

## FINANCIAL INFORMATION

### *Other income and gains*

Other income and gains increased by approximately 200.0% from approximately RMB1.5 million for the four months ended 30 April 2009 to approximately RMB4.5 million for the four months ended 30 April 2010. The increase was primarily due to the rental income from the lease of tanker trucks to a major customer in 2010.

### *Selling and distribution costs*

Selling and distribution costs decreased by approximately 28.6% from approximately RMB0.7 million for the four months ended 30 April 2009 to approximately RMB0.5 million for the four months ended 30 April 2010.

### *Administrative expenses*

Our administrative expenses increased by approximately 14.9% from approximately RMB9.4 million for the four months ended 30 April 2009 to approximately RMB10.8 million for the four months ended 30 April 2010. The increase was primarily due to the accrual of professional fees in relation to the proposed listing of our Group in 2010.

### *Other expenses*

Other expenses increased by approximately 300.0% from approximately RMB0.1 million for the four months ended 30 April 2009 to approximately RMB0.4 million for the four months ended 30 April 2010.

### *Finance costs*

Our finance costs decreased by approximately 53.5% from approximately RMB12.7 million for the four months ended 30 April 2009 to approximately RMB5.9 million for the four months ended 30 April 2010. The decrease in finance costs was primarily due to the lower interest rate in 2010 as compared with that in 2009.

### *Income tax expense*

Our income tax expense increased by approximately 29.1% from approximately RMB15.8 million for the four months ended 30 April 2009 to approximately RMB20.4 million for the four months ended 30 April 2010. The increase was primarily due to the fact that Yongming Petrochemical was exempted from paying tax in 2009 while it was subject to corporate income tax of 12.5% in 2010. Our effective tax rate was approximately 15.4% and approximately 20.6% for the four months ended 30 April 2009 and 30 April 2010 respectively.

### *Profit for the year*

As a result of the foregoing, our profit decreased by approximately 9.1% from approximately RMB86.6 million for the four months ended 30 April 2009 to approximately RMB78.7 million for the four months ended 30 April 2010. Our net profit margin decreased from approximately 23.5% for the four months ended 30 April 2009 to approximately 13.9% for the four months ended 30 April 2010. The

## FINANCIAL INFORMATION

decrease in our net profit margin was primarily due to the decrease in gross profit margin of ethylene oxide as aforementioned and the increase in tax expenses when Yongmong Petrochemical commenced to pay its corporate income tax from 2010 onwards.

### **Year ended 31 December 2009 compared with year ended 31 December 2008**

#### ***Revenue***

Our revenue increased by approximately 34.9% from approximately RMB952.8 million in 2008 to approximately RMB1,285.5 million in 2009. The increase in revenue was mainly contributed by the increase in sales of ethylene oxide, surfactants and processing services.

Sales of our ethylene oxide increased by approximately 11.6% from approximately RMB829.3 million in 2008 to approximately RMB925.1 million in 2009. As the Chinese economy maintained a relatively fast growth rate in 2009, the demand for ethylene oxide remained strong. Our sales volume of ethylene oxide increased significantly by approximately 68.3% from 64,649 MT in 2008 to 108,801 MT in 2009. With the completion of the new ethylene oxide production line with designed annual production capacity of 60,000 MT at Jiaying Production Plant in December 2008, the production capacity of ethylene oxide was doubled. Approximately 77.4% of the production volume of ethylene oxide was used for external sales for the year ended 31 December 2009. The increase in sales volume was partially offset by the decrease in average selling price of ethylene oxide which decreased by approximately 33.7% from RMB12,827.3 per MT in 2008 to RMB8,502.8 per MT in 2009. Since ethylene oxide is indirectly derived from crude oil, the selling price of ethylene oxide is correlated with the international crude oil price. In 2009, although the international crude oil price rebound from its lows in 2008, the average international crude oil price for the full year of 2009 still maintained at a relatively low level as compared with that for the full year of 2008.

Our surfactants sales recorded a remarkable growth in 2009. Sales of our surfactants increased significantly by approximately 362.8% from approximately RMB46.8 million in 2008 to approximately RMB216.6 million in 2009, which was mainly due to the recovery of demand for surfactants in 2009 from the financial crisis in 2008 and the result of our product diversification strategy adopted in 2008. Our Group diversified our product range and reduced our reliance on the revenue generated from ethylene oxide in 2008. We started to expand our surfactant production capacity in 2008 and processed more self-produced ethylene oxide in our Jiaying Production Plant into surfactants. Accordingly, the sales volume of our surfactants increased by approximately 599.6% from 3,470 MT in 2008 to 24,276 MT in 2009. Such increase in sales volume was partially offset by the decrease in average selling price of our surfactants by 33.8% from RMB13,482.2 per MT in 2008 to RMB8,921.7 per MT in 2009 which was in line with the decrease in international crude oil prices.

Sales of our processing services increased significantly by approximately 584.5% from approximately RMB9.7 million in 2008 to approximately RMB66.4 million in 2009. The growth was attributable to our production capacity expansion in surfactants and our success in securing a major customer for the sales of our surfactant processing services in 2008. Our volume of surfactants processed increased by approximately 98.7% from 14,793.0 MT in 2008 to 29,399.0 MT in 2009 while our average surfactant processing service fees were around RMB435.9 per MT of surfactants processed in 2008 and 2009. In addition, in 2009, in view of the uncertainty arising from the financial crisis, we used part of our ethylene oxide production capacity to be engaged in ethylene oxide processing services at an average fee of RMB3,419 per MT with a total of 15,672 MT of ethylene oxide being processed.

## FINANCIAL INFORMATION

### *Cost of sales*

Cost of sales increased by approximately 27.6% from approximately RMB728.3 million in 2008 to approximately RMB929.2 million in 2009. The increase was substantially in line with the increase in revenue.

The cost of sales of ethylene oxide increased by approximately 4.3% from approximately RMB621.7 million in 2008 to approximately RMB648.8 million in 2009. This was primarily due to the increase in sales volume of ethylene oxide which was partially offset by the decrease in average cost of ethylene. The cost of sales of surfactants increased by approximately 346.9% from approximately RMB39.7 million to approximately RMB177.4 million. The growth was in line with the increase in sales volume.

### *Gross profit*

As a result of the foregoing, gross profit increased by approximately 58.7% from approximately RMB224.5 million in 2008 to approximately RMB356.3 million in 2009. The gross profit margin increased from approximately 23.6% in 2008 to 27.7% in 2009.

The increase in gross profit margin was primarily contributed by (i) the decrease in the average cost of ethylene whereas the extent of such decrease was larger than the decrease in average selling price of ethylene oxide; and (ii) the efficiency brought about by our economies of scale when our production capacity was expanded.

### *Other income and gains*

Other income and gains decreased by approximately 27.9% from approximately RMB29.4 million in 2008 to approximately RMB21.2 million in 2009. The decrease was primarily due to the decrease in foreign exchange gains arising from the purchase of fixed assets and raw materials which were settled in USD. RMB was strengthened against USD by approximately 6.4% in 2008 whereas the exchange rate of RMB against USD remained relatively stable in 2009. The decrease in other income and gains was partially offset by (i) the increase in government subsidies mainly arising from incentives provided by local government for our Group to operate in Jiaxing, Zhejiang Province of the PRC; and (ii) the increase in interest income which grew in line with the increase in interest-bearing pledged deposits at banks.

### *Selling and distribution costs*

Selling and distribution costs remained steady and maintained at approximately RMB3.0 million in 2008 and in 2009.

### *Administrative expenses*

Our administrative expenses increased by approximately 21.8% from approximately RMB30.8 million in 2008 to approximately RMB37.5 million in 2009. The increase was primarily due to (i) the increase in salary and staff benefits costs arising from the increase in headcount of our staff from 397 in 2008 to 455 in 2009 as our business expanded and the annual salary increment of the administrative staff in order to attract and retain qualified personnel; and (ii) the accrual of legal and consultancy fees.

## FINANCIAL INFORMATION

### *Other expenses*

Other expenses decreased by approximately 85% from approximately RMB2.0 million in 2008 to approximately RMB0.3 million in 2009. The decrease was primarily due to the loss on disposal of an analyser equipment in 2008.

### *Finance costs*

Our finance costs decreased by approximately 10.4% from approximately RMB36.7 million in 2008 to approximately RMB32.9 million in 2009. The decrease was primarily due to the repayment of bank loans of RMB705.4 million during 2009.

### *Income tax expense*

Our income tax expense increased by approximately 124.1% from approximately RMB19.5 million in 2008 to approximately RMB43.7 million in 2009. The increase in tax expenses was in line with the increase in profit. Our effective tax rate calculated from the tax charged to the Group over our profit before tax was approximately 10.8% and approximately 14.4% in 2008 and 2009 respectively.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased by approximately 60.8% from approximately RMB161.8 million in 2008 to approximately RMB260.2 million in 2009. Our net profit margin increased from approximately 17.0% in 2008 to approximately 20.2% in 2009. The increase in our net profit margin was primarily due to the increase in gross profit margin of ethylene oxide as aforementioned as well as the efficiency brought about by our increased economies of scale.

### **Year ended 31 December 2008 compared with year ended 31 December 2007**

### *Revenue*

Our revenue increased by approximately 8.7% from approximately RMB876.8 million in 2007 to approximately RMB952.8 million in 2008. The increase in revenue was primarily contributed by the increase in sales of our ethylene oxide, surfactants and processing services.

Sales of our ethylene oxide increased by approximately 4.3% from approximately RMB795.2 million in 2007 to approximately RMB829.3 million in 2008. Since our Group had diversified our product range and reduced our reliance on the revenue generated from ethylene oxide in 2008, more self-manufactured ethylene oxide was consumed for the production of surfactants. Our sales volume of ethylene oxide remained relatively stable at 64,649 MT in 2008, compared with 65,078 MT in 2007 while our designed annual production capacity remained at 60,000 MT. Approximately, 95.4% of the actual production capacity was used for external sales for the year ended 31 December 2008. The increase in sales of our ethylene oxide was primarily due to the increase in our average selling price of ethylene oxide which increased by approximately 5.0% from RMB12,218.8 per MT in 2007 to RMB12,827.3 per MT in 2008.

## FINANCIAL INFORMATION

Sales of our surfactants increased by approximately 51.4% from approximately RMB30.9 million in 2007 to approximately RMB46.8 million in 2008, which was mainly due to the increase in surfactant production capacity. Our first surfactant production line at our Jiaxing Production Plant with a designed annual production capacity of 100,000 MT commenced production in February 2008 when our total designed annual production capacity of surfactants increased from 18,000 MT in 2007 to 118,000 MT in 2008. Our sales volume of surfactants increased by approximately 21.0% from 2,866.7 MT in 2007 to 3,470.0 MT in 2008.

Sales of our processing services increased by approximately 185.3% from approximately RMB3.4 million in 2007 to approximately RMB9.7 million in 2008. The increase was primarily due to that we were able to secure a major customer for the surfactants processing services. The volume of surfactants processed increased from 7,749 MT in 2007 to 14,793 MT in 2008.

### ***Cost of sales***

Cost of sales increased by approximately 9.1% from approximately RMB667.3 million in 2007 to approximately RMB728.3 million in 2008. The increase was substantially in line with the increase in our revenue.

### ***Gross profit***

As a result of the foregoing, gross profit increased by approximately 7.2% from approximately RMB209.4 million in 2007 to approximately RMB224.5 million in 2008. The gross profit margin remained stable at approximately 23.9% in 2007 and 23.6% in 2008. While the gross profit margin of our sales of ethylene oxide increased from 23.1% in 2007 to 25.0% in 2008 primarily due to the increase in average selling price of ethylene oxide over the increase in cost of sales, the gross profit margin of the sales of surfactants dropped from 27.5% to 15.2% which was mainly due to the additional depreciation charge and fixed costs arising from our expanded production line in surfactants.

### ***Other income and gains***

Other income and gains increased by approximately 45.5% from approximately RMB20.2 million in 2007 to approximately RMB29.4 million in 2008. The increase was primarily due to (i) the foreign exchange gains from the purchase of fixed assets and raw materials which were settled in USD while RMB strengthened against USD in 2008; and (ii) the increase in government subsidies arising from the incentives granted for loan withdrawn to finance capital expenditure and other incentives granted by local government for operations in Jiaxing, Zhejiang province, the PRC.

### ***Selling and distribution costs***

Selling and distribution costs increased by approximately 275.0% from approximately RMB0.8 million in 2007 to approximately RMB3.0 million in 2008. The increase was primarily due to the transportation expenses incurred for the sales of surfactants.

## FINANCIAL INFORMATION

### *Administrative expenses*

Our administrative expenses increased by approximately 35.7% from approximately RMB22.7 million in 2007 to approximately RMB30.8 million in 2008. The increase was primarily due to (i) the increased headcount of our staff from 369 in 2007 to 397 in 2008 as the scale of our operation grew; (ii) the annual salary increment in order to attract and retain qualified personnel; (iii) the additional depreciation charge in relation to a new air separation equipment, the construction of which was completed by the end of 2007 and was put into use in late 2008. The depreciation charge of the equipment before being put into use after construction completed was recorded in administrative expenses; and (iv) the increase in bank commission and administrative charges arising from more financing activities and more remittances and settlement charges due to increased sales and purchases in 2008.

### *Other expenses*

Other expenses increased by approximately 53.8% from approximately RMB1.3 million in 2007 to approximately RMB2.0 million in 2008. The increase was primarily due to the loss on disposal of an analyser equipment in 2008.

### *Finance costs*

Our finance costs increased by approximately 6.7% from approximately RMB34.4 million in 2007 to approximately RMB36.7 million in 2008. The increase was in line with the increase in bank borrowings for financing our expansion through constructing new production lines and fixed assets procurement.

### *Tax*

Our tax expenses increased from approximately RMB0.8 million in 2007 to approximately RMB19.5 million in 2008. Sanjiang Chemical was entitled to tax holidays in 2007 while it is subject to corporate income tax at a rate of 12.5% from 2008 to 2010. The increase in tax expenses was primarily due to the corporate income tax derived from the profit generated by Sanjiang Chemical. Our effective tax rate calculated from the tax charged to the Group over our profit before tax was 0.5% and approximately 10.8% in 2007 and 2008 respectively.

### *Profit for the year*

As a result of the foregoing, our profit for the year was decreased by approximately 4.7% from approximately RMB169.7 million in 2007 to approximately RMB161.8 million in 2008. Our net profit margin decreased from approximately 19.4% in 2007 to approximately 17.0% in 2008. The decrease in our net profit margin was primarily due to the increased tax expenses as Sanjiang Chemical commenced to pay its corporate income tax in 2008.

## FINANCIAL INFORMATION

### ANALYSIS OF FINANCIAL POSITIONS

The following table sets forth the financial information in our consolidated statements of financial position as extracted from the Accountants' Report which are set out in Appendix I to this prospectus. You should read the entire financial statements included therein, including the notes thereto, for more details.

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>				
Property, plant and equipment	703,757	895,821	897,322	877,782
Prepaid land lease payments	32,545	31,753	48,539	46,130
Intangible assets	25,131	22,582	19,654	18,632
Advance payments for property, plant and equipment	92,121	83,327	53,941	113,960
Deferred tax assets	2,671	1,207	627	431
<b>Total non-current assets</b>	<b>856,225</b>	<b>1,034,690</b>	<b>1,020,083</b>	<b>1,056,935</b>
<b>Current assets</b>				
Inventories	94,788	77,080	67,717	115,227
Trade and notes receivables	56,841	45,453	38,763	88,513
Prepayments, deposits and other receivables	103,111	62,837	22,260	24,875
Due from directors	14,858	16,539	–	–
Due from related parties	112,819	240,244	142,403	–
Pledged deposits	214,924	229,592	236,547	343,942
Cash and cash equivalents	115,321	65,365	109,205	143,919
<b>Total current assets</b>	<b>712,662</b>	<b>737,110</b>	<b>616,895</b>	<b>716,476</b>
<b>Current liabilities</b>				
Trade and bills payables	379,568	286,421	254,083	300,506
Other payables and accruals	180,672	152,037	136,764	91,264
Interest-bearing bank borrowings	568,287	647,963	629,986	682,809
Due to directors	121,454	124,580	1,564	80
Due to related parties	3,938	8,988	5,878	3,725
Due to the parent and ultimate holding company	–	–	68,282	136,525
Dividends payable	12,070	56,956	172,036	113,659
Tax payable	1,256	3,504	11,865	14,908
<b>Total current liabilities</b>	<b>1,267,245</b>	<b>1,280,449</b>	<b>1,280,458</b>	<b>1,343,476</b>
<b>Net current liabilities</b>	<b>(554,583)</b>	<b>(543,339)</b>	<b>(663,563)</b>	<b>(627,000)</b>
<b>Non-current liabilities</b>				
Interest-bearing bank borrowings	80,000	139,000	89,500	106,322
Deferred tax liabilities	341	14,110	32,822	40,594
<b>Total non-current liabilities</b>	<b>80,341</b>	<b>153,110</b>	<b>122,322</b>	<b>146,916</b>
<b>Net assets</b>	<b>221,301</b>	<b>338,241</b>	<b>234,198</b>	<b>283,019</b>
<b>Equity</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital	–	–	901	901
Reserves	51,877	66,059	(51,379)	(34,610)
Retained profits	142,252	235,791	284,838	314,849
	194,129	301,850	234,360	281,140
Non-controlling interests	27,172	36,391	(162)	1,879
<b>Total equity</b>	<b>221,301</b>	<b>338,241</b>	<b>234,198</b>	<b>283,019</b>

## FINANCIAL INFORMATION

### Inventories

The following table sets forth a summary of our inventory balances at the end of each reporting period indicated as well as the turnover days of our inventory for the periods indicated.

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	88,560	58,795	57,773	107,637
Finished goods	6,228	18,285	9,944	7,590
<b>Total inventories</b>	<b>94,788</b>	<b>77,080</b>	<b>67,717</b>	<b>115,227</b>
				<b>Four months ended</b>
	<b>Year ended 31 December</b>			<b>30 April</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Inventory turnover days	42.3	43.1	28.4	24.1

Our inventory consists of raw materials, mainly ethylene, and finished products. Our cross-department team, including members from production department, procurement department, finance department and quality control department, reviewed and monitored the inventory level on a periodical basis throughout the Track Record Period. This involved the maintenance of appropriate level of inventory and testing of the quality of the raw materials and finished goods as well as the assessment of any write-down or provision of inventory for obsolete and slow-moving items were required. During the Track Record Period, there was a write-down of inventories to net realisable value of RMB94,000 relating to chemical gases.

Inventory turnover days are derived by dividing the arithmetic mean of the beginning and ending balances of inventory for the relevant period by cost of sales and multiplying by 365 days. Our inventory turnover days were 42.3 days, 43.1 days, 28.4 days and 24.1 days, respectively, during the Track Record Period. The inventory turnover days remained steady in 2007 and 2008. The decrease in inventory turnover days in 2009 was primarily attributable to the increase in revenue contribution from ethylene oxide and surfactants processing which did not bear any inventory such that the average inventory of finished goods was reduced in 2009. The inventory turnover days decreased from 28.4 days in 2009 to 24.1 days for the four months ended 30 April 2010 while the inventories balance increased from approximately RMB 67.7 million as at 31 December 2009 to approximately RMB115.2 million as at 30 April 2010. This was primarily due to the fact that a bulk quantity of ethylene of approximately RMB34.8 million was purchased near the end of April 2010.

As at 31 July 2010, we used approximately 94.0% of the raw materials outstanding as at 30 April 2010 and sold all of the finished goods outstanding as at 30 April 2010.

## FINANCIAL INFORMATION

### Trade and notes receivables

Our trade and notes receivables represent receivables from the sales of ethylene oxide, surfactants and the provision of processing services. In 2007 and 2008, we generally delivered ethylene oxide to our customers after they have made full payment except for one of them being granted credit terms, but we ceased to trade with such customer since 2009. Commencing from 2009, majority of our ethylene oxide customers are required to make full payment before delivery of ethylene oxide. We generally offer credit terms of 15 to 30 days to our customers other than ethylene oxide customers. Accordingly, majority of our ethylene oxide customers are currently traded with us on cash basis whereas all other customers are traded with credit terms.

Our management has delegated a cross-department team, headed by a general manager, comprising staff members from sales department, finance department and legal department to assess and monitor the credit risks of the customers. In order to manage the credit risks associated with trade receivables effectively, each customer has a maximum credit limit and the credit limits are evaluated periodically. The credit limits are assessed with reference to the sales contracts entered into by each customer and the corresponding repayment progress is closely followed up by the sales department in order to ensure prompt action is taken to recover overdue debts.

The following table sets forth the turnover days of our trade and notes receivables at the end of each reporting period indicated.

	<b>Year ended 31 December</b>			<b>Four months ended 30 April</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Turnover days of trade and notes receivables (days)	20.7	19.6	12.0	13.5

Turnover days of trade and notes receivables are derived by dividing the arithmetic mean of the opening and closing balances of net trade and notes receivables for the relevant period by revenue and multiplying by 365 days. The turnover days were in line with the normal credit terms of less than 30 days granted to the customers other than ethylene oxide customers. The decrease in the turnover days of trade and notes receivables from 20.7 days in 2007 to 19.6 days in 2008 was primarily due to the repayment received from a major ethylene oxide customer which traded with us on credit terms, but we ceased to trade with it starting from 2009. The turnover days were further reduced from 19.6 days in 2008 to 12.0 days in 2009, primarily due to the fact that in 2009, as a result of the high demand of our products, majority of our ethylene oxide customers are required to pay in advance before delivery in order to secure supply of our products. The turnover days of trade and notes receivables remained at a low level of 13.5 days in 2010.

## FINANCIAL INFORMATION

The table below sets out the aging analysis of the trade and notes receivables at the end of the reporting period indicated, based on the invoice date.

	As at 31 December			As at
	2007	2008	2009	30 April
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
1 to 30 days	33,430	10,736	12,947	40,300
31 to 60 days	8,580	3,145	6,691	14,156
61 to 90 days	1,798	7,102	5,032	12,442
91 to 360 days	7,691	22,297	3,537	21,012
Over 360 days	<u>6,317</u>	<u>2,439</u>	<u>10,822</u>	<u>603</u>
Total	<u>57,816</u>	<u>45,719</u>	<u>39,029</u>	<u>88,513</u>

An amount of RMB10.7 million out of the total balance aged between 91 to 360 days in 2008 and an amount of RMB10.1 million aged over 360 days in 2009 was related to the receivable from a major customer. Due to our Group's restructuring, such major customer which formerly purchased products from Hangzhou Haoming has started to purchase products from Sanjiang Chemical in 2009. As a result of the change of suppliers, such customer settled the trading balance with Sanjiang Chemical, however, the overdue balance with Hangzhou Haoming remained unsettled due to the inadvertence of such customer which unilaterally believed that the amount due to Hangzhou Haoming should be paid to Sanjiang Chemical without realising that they are two separate entities. Sanjiang Chemical recorded the excess amount received from such major customer as advances from customers before delivery of ethylene oxide. The relevant balance was subsequently settled in full in 2010.

In 2008, another RMB5.2 million of receivables was aged between 91 to 360 days. This represented the notes receivable with a maturity period of 90 to 180 days.

In 2010, the increase in trade and notes receivable was primarily due to the repayment from a related party, Hangzhou Haoming by way of notes of approximately RMB59.1 million with a maturity period of 90 to 180 days. The amount of RMB59.1 million represented the trade related balances owed by such related party. Since Hangzhou Haoming is under the common control and management of Mr. Guan and Ms. Han, the results of the business acquired from Hangzhou Haoming have been reflected in our Group's results prior to 31 March 2010 by using merger accounting and the balance owed by Hangzhou Haoming was eliminated. However, as part of the Reorganisation, our Group acquired the ethylene oxide trading and surfactant manufacture and sale businesses of Hangzhou Haoming in April 2010. Such RMB59.1 million trade-related balance owed by Hangzhou Haoming was then reflected as amount due from related parties and Hangzhou Haoming used notes to settle the balance which, in turn, resulted in the increase in notes receivables as at 30 April 2010. As at the Latest Practicable Date, RMB59.1 million of the notes were fully settled.

As at 31 July 2010, approximately 85.8% of our trade and notes receivables outstanding as at 30 April 2010 were fully settled.

## FINANCIAL INFORMATION

During the Track Record Period, the provision for impairment of trade receivables is set forth in the following table:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	975	975	266	266
Amount written off as uncollectible	—	(709)	—	(266)
	<u>975</u>	<u>266</u>	<u>266</u>	<u>—</u>

The individually impaired trade receivables are long overdue and relate to customers which no longer have any transaction with the Group and none of the receivables are expected to be recovered. The Group did not hold any collateral or other credit enhancements over these balances. During the Track Record Period, our provision for impairment represented about 1.7%, 0.6%, 0.7% and 0%, respectively, over the total trade and notes receivables.

### Prepayments, deposits and other receivables

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	9,611	5,831	10,515	17,041
Other receivables	93,442	56,988	11,402	6,997
Prepaid land lease payments	<u>779</u>	<u>779</u>	<u>1,140</u>	<u>1,018</u>
	103,832	63,598	23,057	25,056
Less: Impairment	<u>(721)</u>	<u>(761)</u>	<u>(797)</u>	<u>(181)</u>
<b>Total</b>	<u>103,111</u>	<u>62,837</u>	<u>22,260</u>	<u>24,875</u>

## FINANCIAL INFORMATION

Our prepayment in 2007 mainly represented the prepayments of approximately RMB3.5 million to our import agent for the purchase of ethylene. The balance was cleared in 2008 and a deposit of RMB3.5 million was placed with the banks for issuance of letter of credit. Our prepayment in 2008 and 2009 principally consisted of (i) the prepayment of import value added tax to Zhapu Office of Jiaying Customs and Excise Department (嘉興海關駐乍浦辦事處) for the purchase of ethylene; (ii) the prepayment regarding the loading fees for shipment at the wharf; and (iii) the prepayment in relation to the construction of chemical pipelines. The increase in prepayments in 2009 was in line with the increase in the import of ethylene which in turn commanded more prepayment in the import value added tax to Zhapu Office of Jiaying Customs and Excise Department. Our prepayment in 2010 mainly represented the prepayment of import value added tax to Zhapu Office of Jiaying Customs and Excise Department for the purchase of ethylene.

Other receivables mainly included (i) advances to Independent Third Parties; (ii) interest receivable derived from the placing of time deposits; (iii) deposits paid to a transportation service provider for the import of liquefied nitrogen equipment in 2007 and the deposit was released in 2008; and (iv) interest-free advances to employees for the purchase of their own houses being part of the staff fringe benefits. With respect to the advances to Independent Third Parties, some advances were interest-bearing with fixed payment terms whereas others were interest-free and repayable on demand. Our PRC Legal Advisers have advised that the advances to Independent Third Parties did not comply with the relevant PRC laws and regulations. As a result, the principal amount of the advances should be returned to the lender and the interest earned (if any) could be confiscated by the relevant authority. In addition, a fine equivalent to an amount between one time to five times of the interest earned (if any) may be imposed on the lender. Based on the interest earned from the advances made to Independent Third Parties, the maximum penalty of our Group would be approximately RMB24 million. However, our PRC Legal Advisers have advised that as the advances to Independent Third Parties have been fully settled, the risk of the relevant authority imposing penalty on our Group will be extremely remote. Pursuant to a deed of indemnity dated 2 September 2010 executed by Mr. Guan and Sure Capital in favour of our Group, Mr. Guan and Sure Capital, our controlling shareholders, have agreed to indemnify our Group, among others, against any payment obligations or penalties imposed by any relevant authorities in relation to such advances made to Independent Third Parties. Such interest-bearing advances reduced from RMB87.6 million in 2007 to RMB4.7 million in 2009. All advances have been fully settled as at 30 April 2010. The advances to Independent Third Parties were made out of commercial considerations by our Group having regard to the risks of non-recoverability and the interest earned (if applicable). Our Group will not make advances to any Independent Third Parties in the future.

### **Trade and bills payables**

Our trade and bills payables represent amounts payable for purchases of raw materials from various suppliers. During the last quarter of every year, we start to negotiate with our suppliers regarding the quantity, price and delivery of raw materials in the coming year. The actual delivery of the raw materials will depend on the production needs and shipment schedule. Our suppliers typically offer us credit terms of 90 days, based on the invoice date. We settle our trade payables by means of bills and letters of credit.

## FINANCIAL INFORMATION

The following table sets forth the turnover days of our trade and bills payables at the end of each reporting period indicated.

	Year ended 31 December			Four months ended 30 April
	2007	2008	2009	2010
Turnover days of trade and bills payables (days)	198.0	166.9	106.2	73.1

Turnover days of trade and bills payables are derived by dividing the arithmetic mean of the beginning and ending balances of net trade and bills payables for the relevant period by cost of sales and multiplying by 365 days.

In general, we settled our purchases of raw materials through letters of credit with a maturity period of 90 days on average. We financed our payments with the bills issued by the banks which bore a maturity period of 180 days on average. Accordingly, the turnover days of trade and bills payables are around 180 days. Starting from 2008, we used more letters of credit with a maturity period of approximately 90 days to settle our trade payables and we financed the payments through the use of short-term bank borrowings. This resulted in the reduction of trade and bills payables turnover days from 198.0 days in 2007 to 106.2 days in 2009. The further decrease in trade and bills payables turnover days from 106.2 days in 2009 to 73.1 days in 2010 despite the increase in trade and bills payable balance in 2010 was primarily due to a bulk quantity of ethylene of approximately RMB34.8 million was purchased near the end of April 2010 and it was recorded in inventory as at 30 April 2010.

The table below sets out the aging analysis of the trade and bills payables at the end of the reporting period indicated, based on the invoice date.

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	148,528	223,446	189,799	228,066
3 to 6 months	173,380	61,764	62,172	70,968
6 to 12 months	5,075	105	259	151
12 to 24 months	52,315	286	1,095	911
24 to 36 months	169	589	89	41
Over 36 months	101	231	669	369
Total	379,568	286,421	254,083	300,506

As at 31 July 2010, we had settled approximately 76.1% of the outstanding trade and bills payables as at 30 April 2010.

## FINANCIAL INFORMATION

### Other payables and accruals

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables	148,721	103,672	55,812	49,686
Taxes other than income tax	12,715	16,916	9,602	5,381
Advances from customers	5,605	19,153	53,376	24,467
Payroll payable	4,371	5,712	7,736	5,667
Other accrual liabilities	9,260	6,584	10,238	6,063
Total	<u>180,672</u>	<u>152,037</u>	<u>136,764</u>	<u>91,264</u>

Our other payables principally represented (i) the payables in relation to the construction of our new production line at Jiaying Production Plant. Such payables will be settled upon the expiry of the warranty period which in general is one year from the completion of the construction. The payables for property, plant and equipment suppliers decreased from RMB126.3 million in 2007 to RMB35.4 million in 2009 and RMB35.2 million as at 30 April 2010; (ii) interest payable relating to bank borrowings; (iii) the amount of RMB10 million payable to Tengfei Gongmao in relation to the acquisition of 4.44% shares in Sanjiang Chemical by Capitol International in 2009. The amount had been fully settled as at 30 April 2010; (iv), an advance of RMB14.6 million from an Independent Third Party made in 2007 was fully settled in 2008; and (v) deposits for the use of water and gas pipelines.

Taxes other than income tax mainly included the value added tax payable which grew in line with the increase in sales. The decrease in the balance in 2009 and 2010 was primarily due to the set-off from the value added tax refund arising from the purchase of fixed assets. The decrease in taxes other than income tax from RMB9.6 million in 2009 to RMB5.4 million in 2010 was primarily due to the set-off of value added tax refund arising from the purchase of a bulk quantity of ethylene in April 2010.

It is our current policy to require our ethylene oxide customers to pay in advance before the delivery of ethylene oxide. Nevertheless, in 2007 and 2008, one major ethylene oxide customer which we ceased trading with it in 2009 was traded with credit terms instead of payment before delivery. Commencing from 2009, majority of our ethylene oxide customers were required to make advanced payment before delivery and consequently, the advances from customers increased significantly in 2009. The advances from customers are non-interest bearing. The decrease in advances from customers from RMB53.4 million as at 31 December 2009 to RMB24.5 million as at 30 April 2010 was primarily due to that more advances from customers were received for placing new orders in December 2009.

## FINANCIAL INFORMATION

Our payroll payable mainly represented the accrual of pension, medical insurance and housing fund for the year. The increase was in line with the increase in headcount of staff.

Other accruals mainly included the accrual in electricity. The decrease in 2008 was mainly due to the decrease in accrued electricity fees as the local state grid authority changed the payment date and the accrual period decreased at the year end of 2008. In 2009, as our new ethylene oxide production lines were put into full-year operation, more electricity was consumed and accrued liabilities in electricity were increased accordingly. The decrease in 2010 was primarily due to the shorter accrual period in April 2010 as compared with that in December 2009. The accrual period of electricity depended on the payment date set by the local state grid authority from time to time.

### Amount due from/to directors

	As at 31 December			As at
	2007	2008	2009	30 April
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>2010</u>
Amount due from directors	14,858	16,539	—	—
Amount due to directors	121,454	124,580	1,564	80

The balances with directors were non-trade in nature, unsecured, interest-free and had no fixed terms of repayment. All the balances with directors will be settled before Listing by means of our Group's cash flow from operations.

### Due from/to related parties

	As at 31 December			As at
	2007	2008	2009	30 April
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>2010</u>
Amount due from related parties	112,819	240,244	142,403	—
Amount due to related parties	3,938	8,988	5,878	3,725

## FINANCIAL INFORMATION

Amount due from/to related parties principally consisted of advances between the Group and related parties and the balance arose from combining the Acquired Business of the Hangzhou Haoming Business Acquisition into our Group where the Acquired Business commanded net liabilities prior to 31 March 2010 and upon application of merger accounting, the amount due from Hangzhou Haoming was resulted. The advances with related parties were unsecured, interest-free and repayable on demand. All balances with related parties will be settled before Listing by means of our Group's cash flow from operations.

### Due to the ultimate holding company

	As at 31 December			As at
	2007	2008	2009	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due to the parent and ultimate holding company	–	–	68,282	136,525

The balance in 2009 comprised RMB68.3 million representing the subscription monies in relation to the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital. The balance in 2010 comprised RMB136.5 million relating to the subscription monies of US\$20 million preference shares in Sure Capital injected into our Group as shareholders' loan by Sure Capital, which will be fully settled prior to Listing by the allotment and issue of 18,000 Shares to the Preference Shares Investors.

## FINANCIAL INFORMATION

### Net current assets/liabilities

We had a net current liabilities of approximately RMB554.6 million, RMB543.3 million and RMB663.6 million as at 31 December 2007, 2008 and 2009 respectively, and RMB627.0 million as at 30 April 2010 and RMB558.9 million as at 31 July 2010, respectively. The following table sets out the composition of our unaudited current assets and liabilities as at 31 July 2010.

	<b>As at 31 July 2010</b>
	<i>RMB'000</i> (unaudited)
<b>Current assets</b>	
Inventories	120,493
Trade and note receivables	55,145
Prepayments, deposits and other receivables	69,974
Pledged deposits	534,325
Cash and cash equivalents	50,229
<b>Total current assets</b>	<u>830,166</u>
<b>Current liabilities</b>	
Trade and bills payables	357,881
Other payables and accruals	93,535
Interest-bearing bank borrowings	774,342
Due to related parties	422
Due to the parent and ultimate holding company	135,500
Dividends payable	13,490
Tax payable	13,860
<b>Total current liabilities</b>	<u>1,389,030</u>
<b>Net current liabilities</b>	<u><u>(558,864)</u></u>

The net current liabilities position of our Group during the Track Record Period was mainly attributable to the high proportion of short term loans to total bank borrowings. To the best knowledge and belief of the Directors and having confirmed with principal banks of our Group during interviews, it is a common practice in the PRC for the local banks to extend working capital loans to enterprises with maturity not more than 12 months. Although our Group recorded net current liabilities during the Track Record Period, we were able to repay and renew bank borrowings and had not recorded default on bank borrowings.

## FINANCIAL INFORMATION

The increase in net current liabilities as at 31 December 2009 was primarily due to (i) the amount due to ultimate holding company of RMB68.3 million which represented the subscription monies of RMB68.3 million for the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital; and (ii) dividends payable of RMB172.0 million, of which RMB166.3 million relating to the dividend payable to Sure Capital. As at 30 April 2010, we recorded dividends payable of RMB113.7 million which represented the dividend payable to Sure Capital. Besides, the balance of amount due to the parent and ultimate holding company increased to RMB136.5 million, relating to the subscription monies for the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital. The dividends payable to Sure Capital were fully settled as at the Latest Practicable Date.

Our net current liabilities decreased from approximately RMB627.0 million as at 30 April 2010 to approximately RMB558.9 million as at 31 July 2010. This was primarily due to the increase in pledged deposit by approximately RMB190.4 million from approximately RMB343.9 million as at 30 April 2010 to approximately RMB534.3 million as at 31 July 2010 and the dividend payment of approximately RMB100.2 million during the three months from May to July 2010. The increase in pledged deposit was primarily attributable to the placing of RMB deposit as collateral to secure letter of credit in USD for the purchase of ethylene and to borrow USD loan for dividend payment. The decrease in net current liabilities was partially offset by the increase in our bank borrowings of approximately RMB91.5 million as at 31 July 2010.

We historically financed our operations and capital expenditures mainly through cash from operating activities and bank borrowings, in particular short term loans. During the Track Record Period, our net cash inflows from operating activities were approximately RMB221.9 million, RMB69.7 million, RMB294.7 million and RMB255.9 million, respectively. We had raised new bank borrowings amounted to approximately RMB628.3 million, RMB707.0 million, RMB637.9 million and RMB450.6 million, respectively, while we repaid bank borrowings amounted to approximately RMB502.0 million, RMB568.3 million, RMB705.4 million and RMB380.9 million, respectively, during the Track Record Period.

We mainly used short term loans and trade finance facilities, which were renewed annually, to finance our operations and we primarily used cash from operating activities and long term bank borrowings to finance our capital expenditures during the Track Record Period. As at 31 December 2007, 2008 and 2009 and 30 April 2010, short term bank borrowings accounted for approximately 87.7%, 82.3%, 87.6% and 86.5% of the total bank borrowings, which contributed to the relatively high net current liabilities position of the Group.

A substantial part of our bank borrowings during the Track Record Period were short term loans, which to the best of the knowledge and belief of our Directors, is a common practice in the PRC for the local banks to extend working capital loans to enterprises with maturity not more than 12 months. While we recorded net current liabilities during the Track Record Period and as at 31 July 2010, we had not experienced any difficulties in renewing our banking facilities upon maturity in the past, nor had we defaulted on any bank borrowings. Furthermore, we have obtained confirmations from our principal banks which granted us facilities on rolling over our banking facilities and we do not foresee any immediate repayment requirement for our bank borrowings or withdrawal or reduction in banking facilities on short notice. In addition, we expect that our net current liabilities position would be substantially improved following the completion of the Global Offering. As such, despite the net current liabilities position, we do not consider ourselves as being in a tight financial position.

## FINANCIAL INFORMATION

In light of our consistently improving financial performance, our Directors believe that we will continue to utilise the existing cash-on-hand, cash generated from operating activities and to secure additional bank borrowings, if necessary, to finance our existing operations and meet the capital requirements for our committed or planned expansion.

It has been our strategy to achieve growth by expanding our production capacity. Our major expansion projects in the next few years will focus on expanding our ethylene oxide production capacity, namely the third and fourth phases construction of production facilities of ethylene oxide with designed annual production capacities of 60,000 MT and 100,000 MT respectively, and the establishment of the joint venture company, namely Sanjiang Honam which will be engaged in the production of ethylene oxide with a target designed annual production capacity of approximately 200,000 MT. During the Track Record Period, our ethylene oxide production facilities had been operated at over 100% utilisation rate and we had been able to successfully sell our ethylene oxide to our customers or use our ethylene oxide for manufacturing surfactants in-house. Based on the prevalent market condition and according to the SAI Report, we expect that the demand for ethylene oxide will continue to remain strong and we do not foresee any difficulty in fully utilising our ethylene oxide production capacity in the future.

The Directors believe that there is a growing demand for surfactants in the PRC. According to the SAI Report, it is expected that the demand for non-ionic surfactants, namely AEO products in the PRC, will increase in the coming five-year period until 2014. With an aim to capitalise on such growing demand for AEO surfactants and their downstream products, we have expended a portion of cash flows from operating activities and have obtained bank borrowings for construction of our surfactant production facilities during the Track Record Period. Following the completion of the construction of the second phase of surfactant production facilities with the designed annual production capacity of 100,000 MT at our Jiaying Production Plant in August 2010, we do not have any plan to further increase our surfactant production capacity by constructing new production lines, instead, we will seek to increase our production capacity through mergers and acquisitions. Further, as part of our strategy to vertically integrate our production process of ethylene oxide and surfactants, notwithstanding the current low utilisation rate of our surfactant production facilities, our Directors are confident that the utilisation rate of our surfactant production facilities will increase as additional output of ethylene oxide from increasing production capacity as planned can be used toward surfactant production.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

We have funded our operations and capital requirements principally from cash generated from our operations and bank borrowings. Our primary uses of cash have been spent on capital expenditures for our expansion of production lines in our Jiaying Production Plant and increased working capital requirements of our operations.

## FINANCIAL INFORMATION

The following table sets forth a condensed summary of our consolidated statements of cash flows for the periods indicated. Such summary of our consolidated statements of cash flows is extracted from the Accountants' Report included in Appendix I to this prospectus and you should read the entire financial statements included therein, including the notes thereto, for more details.

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash inflow from operating activities	221,914	69,711	294,705	327,640	255,895
Net cash outflow from investing activities	(311,601)	(223,093)	(18,875)	(12,951)	(181,701)
Net cash inflow (outflow) from financing activities	101,112	85,241	(232,932)	(207,034)	(38,808)
Cash and cash equivalents at the beginning of the year	91,478	115,321	65,365	65,365	109,205
Cash and cash equivalents at the end of the year	115,321	65,365	109,205	173,022	143,919

### Operating activities

Our net cash inflow from operating activities for the four months ended 30 April 2010 was approximately RMB255.9 million. We generated profit before taxation of approximately RMB99.1 million primarily due to the increase in sales of ethylene oxide. Our amount due from related parties decreased by approximately RMB102.9 million primarily due to the repayment from the related parties. Our trade and bills payables increased by approximately RMB40.7 million primarily due to the bulk purchase of ethylene near the end of April 2010. Our increase in amount due to the parent and ultimate holding company represented the subscription monies of RMB68.2 million in relation to the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital. Our amounts due to related parties increased by approximately RMB62.2 million primarily due to the increase in trade-related transactions with Hangzhou Haoming. Such increase was partially offset by the increase of approximately RMB47.5 million in inventories primarily due to the bulk purchase of ethylene made near the end of April 2010, the increase of approximately RMB49.8 million in trade and notes receivable primarily due to the settlement of RMB59.1 million of amount due from related parties by way of notes receivables and the decrease of approximately RMB35.5 million in other payables and accruals primarily due to the fact that more advances from customers in respect of placing new orders were received in 2009.

Our net cash inflow from operating activities in 2009 was approximately RMB294.7 million. We generated profit before taxation of approximately RMB303.8 million primarily due to the significant increase in sales of ethylene oxide, surfactants and processing services. Our amount due to directors decreased by approximately RMB123.0 million primarily due to the repayment to the directors. The increase in development property of RMB145.6 million was primarily due to the construction of development property after the setup of the subsidiary, Jianghao Property, in June 2009. Our other

## FINANCIAL INFORMATION

payables and accruals decreased by approximately RMB23.3 million primarily due to the decrease of RMB59.0 million in payable to property, plant and equipment suppliers as the construction of our new production lines was completed in 2008. Such decrease was partly offset by the increase of approximately RMB68.3 million in amount due to the parent and ultimate holding company representing the subscription monies in relation to the preference shares in Sure Capital subscribed by Preference Shares Investors which were subsequently injected into our Group as shareholders' loan by Sure Capital, the decrease in the amount due from directors by approximately RMB16.5 million primarily due to repayment of advances by the directors in 2009 and decrease in our prepayments, deposits and other receivables by approximately RMB40.1 million primarily due to repayment of advances from Independent Third Parties.

Our net cash inflow from operating activities was approximately RMB69.7 million in 2008. We generated profit before taxation of approximately RMB181.3 million primarily due to the increase in sales of ethylene oxide, surfactants and processing services. Our prepayments, deposits and other receivables decreased by approximately RMB40.2 million primarily due to the repayment of advances by Independent Third Parties. Our amount due to related parties increased by approximately RMB5.0 million primarily due to the purchase of steam from a fellow subsidiary. The increase was partially offset by the increase in amount due from related parties by approximately RMB127.4 million primarily due to advances to a fellow subsidiary for the purchase of land use right and the decrease in trade and bills payable by approximately RMB93.1 million primarily due to the decrease in trade payables mainly arising from the drop in the cost of ethylene by the end of 2008.

Our net cash inflow from operating activities was approximately RMB221.9 million in 2007. We generated profit before taxation of approximately RMB170.5 million primarily due to the increase in sales. Our amount due from related parties increased by approximately RMB98.0 million primarily due to increase in advances to related parties. Our trade and bills payable also increased by approximately RMB35.0 million primarily due to the increase in purchases of raw materials in response to increase in sales. Our other payables and accruals increased by approximately RMB61.0 million primarily due to increased payables relating to the purchase of fixed assets. The increase was partially offset by the decrease in amount due to related parties by approximately RMB9.8 million primarily due to the repayment of advances by the Group to related parties and our inventories was built up by approximately RMB34.8 million in 2007 primarily due to the storage of more ethylene in anticipation of increasing cost in 2008.

### **Investing activities**

Our net cash outflow from investing activities for the four months ended 30 April 2010 was approximately RMB181.7 million. Our expenditures for investing activities consisted mainly of the purchase of property, plant and equipment of approximately RMB71.5 million, the increase in pledged deposit of approximately RMB107.4 million and the asset purchase of Hangzhou Haoming by Hangzhou Sanjiang for a cash consideration of approximately RMB4.9 million.

Our net cash outflow from investing activities in 2009 was RMB18.9 million. Our expenditures for investing activities consisted mainly of the purchase of property, plant and equipment for production capacity expansion at Jiaxing Production Plant of approximately RMB49.0 million. The net cash outflow was partially offset by the proceeds of RMB47.6 million from the disposal of the subsidiary, Jianghao Property.

## FINANCIAL INFORMATION

Our net cash outflow from investing activities in 2008 was approximately RMB223.1 million. Our expenditures for investing activities consisted mainly of the purchase of property, plant and equipment for production capacity expansion at Jiaying Production Plant of approximately RMB216.0 million and the increase in pledged time deposit of approximately RMB14.7 million as more banking facilities were drawn.

Our net cash outflow from investing activities in 2007 was approximately RMB311.6 million. Our expenditures for investing activities consisted mainly of the purchase of property, plant and equipment for production capacity expansion at Jiaying Production Plant of approximately RMB280.9 million and the increase in pledged time deposits of approximately RMB36.7 million as more banking facilities were drawn.

### Financing activities

Our net cash outflow from financing activities for the four months ended 30 April 2010 was approximately RMB38.8 million. We raised new bank loans of approximately RMB450.6 million in 2010. This was partly offset by the repayment of bank loans of approximately RMB380.9 million, the acquisition of minority interests of 4.44% interest in Sanjiang Chemical by Capitol International for a cash consideration of approximately RMB10 million, and dividend payment to the parent and ultimate holding company of approximately RMB92.5 million.

Our net cash outflow from financing activities was approximately RMB232.9 million in 2009. New bank loans of approximately RMB637.9 million were raised and a capital injection of approximately RMB68.3 million was made in relation to the subscription of ordinary shares in Sanjiang Chemical by Ordinary Shares Investors. Our cash inflow from financing activities was partially offset by repayment of bank loans of approximately RMB705.4 million, the purchase of 41.81% shareholding interest in Sanjiang Chemical by Capitol International at a consideration of RMB94.1 million, the purchase of 3.51% shareholding interest in Yongming Petrochemical by Sanjiang Chemical at a consideration of RMB11.5 million and the purchase of 100% shareholding interest in Sanjiang Trading by Yongming Petrochemical at a consideration of RMB5.0 million, interest payment of approximately RMB32.9 million, dividend payment to the parent and ultimate holding company of approximately RMB31.4 million and dividend payment to non-controlling shareholders of approximately RMB58.8 million.

Our net cash inflow from financing activities was approximately RMB85.2 million in 2008. We raised new bank loans of approximately RMB707.0 million. This was partly offset by the repayment of bank loans of approximately RMB568.3 million and interest payment of approximately RMB53.4 million.

Our net cash inflow from financing activities was approximately RMB101.1 million in 2007. We raised new bank loans of approximately RMB628.3 million and a capital contribution of approximately RMB21.0 million was made by minority shareholders of Sanjiang Chemical and Yongming Petrochemical. This was partly offset by the repayment of bank loans of approximately RMB502.0 million, interest payment of approximately RMB40.3 million and dividend payment of approximately RMB5.9 million.

## FINANCIAL INFORMATION

### Capital expenditures

Our capital expenditures principally comprise expenditures for the expansion of our ethylene oxide and surfactant production lines in Jiaying Production Plant. We historically financed our capital expenditure requirements through cash generated from our operations and bank borrowings. During the Track Record Period, our capital expenditures amounted to approximately RMB280.9 million, RMB216.0 million, RMB49.0 million and RMB71.5 million, respectively.

Our estimated capital expenditures for 2010 are expected to be financed by a combination of our internal cash resources, operating cash flows, net proceeds from the Global Offering and bank borrowings. We may adjust the timing and amounts of our capital expenditures based on various factors, including but not limited to, our cash flows, results of operations, progress of our projects, market conditions and regulatory environment.

### Capital commitments

The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December			As at	As at
	2007	2008	2009	30 April	31 July
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
					<i>(unaudited)</i>
<b>Contracted, but not provided for:</b>					
Investment in					
Sanjiang Honam	–	–	–	40,958	32,829
Plant and machinery	<u>167,173</u>	<u>36,045</u>	<u>26,381</u>	<u>91,628</u>	<u>83,143</u>
	<u>167,173</u>	<u>36,045</u>	<u>26,381</u>	<u>132,586</u>	<u>115,972</u>

The capital commitments of approximately RMB41.0 million as at 30 April 2010 represented our capital contribution of US\$6 million to the registered capital of Sanjiang Honam which was established in May 2010. As at the Latest Practicable Date, approximately RMB8.1 million and RMB17.2 million of the capital commitments for Sanjiang Honam and plant and machinery as at 30 April 2010 had been settled, respectively.

## FINANCIAL INFORMATION

### Contingent liabilities

The Group had the following contingent liabilities not provided for as at the respective reporting dates:

	As at 31 December			As at	As at
	2007	2008	2009	30 April	31 July
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
					(unaudited)
<b>Guarantees given to banks in connection with loans granted to:</b>					
Related parties	198,933	307,933	50,000	30,000	—
Third parties	<u>115,200</u>	<u>128,440</u>	<u>5,500</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<u><u>314,133</u></u>	<u><u>436,373</u></u>	<u><u>55,500</u></u>	<u><u>30,000</u></u>	<u><u>—</u></u>

The guarantee provided by the Group in connection with the bank loans granted to fellow subsidiaries was released on 20 July 2010.

### Off-balance sheet transactions

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

### Working capital

We have historically financed our operations through cash from operating activities and bank borrowings. In the future, we expect to use funds from a combination of sources to fund our operations and expansion plan, including bank loans, internally generated cash flow and proceeds from the Global Offering.

Taking into account the financial resources available to us including internally generated funds, available banking facilities and the estimated net proceeds of the Global Offering, our Directors are of the opinion that we have sufficient working capital to meet our present requirements and at least for the period ending 12 months from the date of this prospectus.

## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Bank borrowings

Our interest-bearing borrowings during the Track Record Period were as follows:

	As at 31 December			As at
	2007	2008	2009	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current</b>				
Secured bank loans	433,287	527,963	551,986	682,809
Current portion of long-term secured bank loans	–	30,000	28,000	–
Discounted bank acceptances	135,000	90,000	50,000	–
Sub-total	568,287	647,963	629,986	682,809
<b>Non-current</b>				
Secured bank loans	80,000	139,000	89,500	106,322
<b>Total bank borrowings</b>	<u>648,287</u>	<u>786,963</u>	<u>719,486</u>	<u>789,131</u>

Our bank borrowings increased from approximately RMB648.3 million in 2007 to approximately RMB719.5 million in 2009 and RMB789.1 million as at 30 April 2010, primarily due to additional bank borrowings for general working capital of our operation and capital expenditures for the construction of our new production lines at Jiaying Production Plant in order to expand our production capacity. During the Track Record Period, our Group repaid an aggregate sum of bank borrowings of approximately RMB502.0 million, RMB568.3 million, RMB705.4 million and RMB380.9 million, respectively.

## FINANCIAL INFORMATION

The secured bank borrowings during the Track Record Period carried interest rates ranging from 5.060% to 8.033%, 3.663% to 8.694%, 1.184% to 8.280% and 0.282% to 6.831%, respectively, per annum and were secured by the following assets and guarantees:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Carrying amounts of assets:</b>				
Buildings, plant and machinery	574,859	606,190	201,896	107,772
Leasehold land	11,128	10,884	9,411	–
Guarantees by related parties	274,000	316,000	–	–
Guarantees by third parties	200,000	50,000	–	–

As at 31 July 2010, being the latest practicable date for determining our indebtedness, we had total available banking facilities of approximately RMB1,311.0 million, of which approximately RMB954.2 million had been utilised. As at 31 July 2010, we had outstanding secured short-term interest-bearing bank borrowings of approximately RMB774.3 million and secured long-term interest-bearing bank borrowings of approximately RMB179.9 million. As at 31 July 2010, the carrying amounts of buildings, plant and machinery of RMB194.5 million were used as security and the increase was primarily due to the increased bank borrowings during the period from May to July 2010. We had no difficulties in renewing our banking facilities in the past. We have obtained confirmations from our principal banks which granted us facilities in respect of rolling over our banking facilities, if needed. Our Group currently does not have any plan to obtain any material debt financing in the foreseeable future.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 31 July 2010, we did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities outstanding.

### MARKET RISKS

Our Group is exposed to various types of market risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk. Please refer to the Accountants' Report as set out in Appendix I to this prospectus for details.

#### Interest rate risk

We are exposed to fair value interest rate risk arising from our financial instrument, principally interest-bearing bank borrowings, pledged deposits, discounted bank acceptances and bank balances. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate with the changes in market interest rates.

## FINANCIAL INFORMATION

The table below demonstrates the sensitivity analysis of the impact in our profit before tax when the interest rate varies within the range of 50 basis points during the Track Record Period:

	<u>Increase/ (decrease) in basis points</u>	<u>Increase/ (decrease) in profit before tax</u> <i>RMB'000</i>
Year ended 31 December 2007		
RMB	50	(14)
RMB	(50)	14
Year ended 31 December 2008		
RMB	50	(24)
RMB	(50)	24
Year ended 31 December 2009		
RMB	50	(35)
RMB	(50)	35
Four months ended 30 April 2010		
RMB	50	(44)
RMB	(50)	44

### Foreign currency risk

Our businesses are located in the PRC and our primary operating transactions are conducted in RMB. Our Group has transactional currency exposures principally arising from purchases of raw materials from overseas suppliers. During the Track Record Period, approximately 50%, 92%, 80% and 74% of our Group's purchases are denominated in currencies other than RMB. We currently do not have a currency hedging policy. However, the management constantly monitors the foreign exchange exposure and will consider appropriate hedging measures when the need arises.

## FINANCIAL INFORMATION

The following table details the sensitivity analysis of the impact in our profit before tax when a 5% change in the RMB against USD during the Track Record Period.

	<b>Increase/ (decrease) in foreign currency rate</b>	<b>Increase/ (decrease) in profit before tax</b>
	<u>%</u>	<u>RMB'000</u>
Year ended 31 December 2007		
If RMB weakens against United States dollar	5	(14,157)
If RMB strengthens against United States dollar	(5)	14,157
Year ended 31 December 2008		
If RMB weakens against United States dollar	5	(11,178)
If RMB strengthens against United States dollar	(5)	11,178
Year ended 31 December 2009		
If RMB weakens against United States dollar	5	(32,303)
If RMB strengthens against United States dollar	(5)	32,303
Four months ended 30 April 2010		
If RMB weakens against United States dollar	5	(20,540)
If RMB strengthens against United States dollar	(5)	20,540

### **Credit risk**

We are exposed to credit risk in the event that our customers fail to perform their payment obligations. With respect to credit risk in connection with cash, short term deposits, amounts due from directors and related parties and other receivables, our maximum exposure is equal to the carrying amounts of those financial assets. In order to minimise credit risk, it is our Group's policy to trade only with recognised and creditworthy third parties and accordingly, we do not require collateral from our customers or counterparties. Further, receivable balances are monitored on an on-going basis and our exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group as our customer bases are widely dispersed.

### **Liquidity risk**

We are potentially exposed to liquidity risk as we had net current liabilities as at 31 December 2007, 2008, 2009 and as at 30 April 2010. Our Group's policy is to strike a balance between continuous funding and flexibility through bank and other borrowings to meet our working capital requirements. We periodically review our liquidity position and evaluate the maturity of our financial instruments.

## FINANCIAL INFORMATION

The table below sets forth the maturity profile of our financial liabilities as at the dates indicated, based on the contractual undiscounted payments.

As at 31 December 2007						
	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to less than 12 months <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills payables	57,835	157,861	163,872	–	–	379,568
Other payables and accruals	118,205	49,343	2,334	10,790	–	180,672
Interest-bearing bank borrowings	–	244,006	337,802	75,200	28,491	685,499
Due to related parties	3,938	–	–	–	–	3,938
Due to directors	121,454	–	–	–	–	121,454
Guarantees given to banks in connection with facilities granted to related parties	–	–	–	198,933	–	198,933
Guarantees given to banks in connection with facilities granted to third parties	–	55,000	60,200	–	–	115,200
	<u>301,432</u>	<u>506,210</u>	<u>564,208</u>	<u>284,923</u>	<u>28,491</u>	<u>1,685,264</u>
As at 31 December 2008						
	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to less than 12 months <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills payables	40,367	111,054	135,000	–	–	286,421
Other payables and accruals	16,889	36,349	67,354	31,433	12	152,037
Interest-bearing bank borrowings	–	380,282	277,463	171,445	–	829,190
Due to related parties	8,988	–	–	–	–	8,988
Due to directors	124,580	–	–	–	–	124,580
Guarantees given to banks in connection with facilities granted to related parties	–	40,000	214,000	53,933	–	307,933
Guarantees given to banks in connection with facilities granted to third parties	–	120,440	8,000	–	–	128,440
	<u>190,824</u>	<u>688,125</u>	<u>701,817</u>	<u>256,811</u>	<u>12</u>	<u>1,837,589</u>

# FINANCIAL INFORMATION

As at 31 December 2009

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to less than 12 months <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills payables	16,907	198,249	38,927	–	–	254,083
Other payables and accruals	16,730	80,233	29,182	10,619	–	136,764
Interest-bearing bank borrowings	–	138,563	499,353	101,758	–	739,674
Due to related parties	5,878	–	–	–	–	5,878
Due to directors	1,564	–	–	–	–	1,564
Due to the parent and ultimate holding company	68,282	–	–	–	–	68,282
Guarantees given to banks in connection with facilities granted to related parties	–	20,000	–	30,000	–	50,000
Guarantees given to banks in connection with facilities granted to third parties	–	5,500	–	–	–	5,500
	<u>109,361</u>	<u>442,545</u>	<u>567,462</u>	<u>142,377</u>	<u>–</u>	<u>1,261,745</u>

As at 30 April 2010

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to less than 12 months <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills payables	216,945	70,639	11,605	1,317	–	300,506
Other payables and accruals	13,652	41,008	26,050	10,554	–	91,264
Interest-bearing bank borrowings	–	172,548	520,184	119,078	–	811,810
Due to related parties	3,725	–	–	–	–	3,725
Due to directors	80	–	–	–	–	80
Due to the parent and ultimate holding company	136,525	–	–	–	–	136,525
Guarantees given to banks in connection with facilities granted to related parties	–	–	–	30,000	–	30,000
	<u>370,927</u>	<u>284,195</u>	<u>557,839</u>	<u>160,949</u>	<u>–</u>	<u>1,373,910</u>

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted net tangible assets of the Group which have been prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the Group's net tangible assets as at 30 April 2010 as if they had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of the Group's net tangible assets had the Global Offering been completed as at 30 April 2010 or at any future date.

The unaudited pro forma adjusted net tangible assets are based on the audited consolidated net tangible assets of our Group as at 30 April 2010, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	<b>Audited consolidated net tangible assets attributable to equity holders of the parent as at 30 April 2010</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>
Based on an Offer Price of HK\$2.38 per Share	262,508	482,976	745,484	0.74
Based on an Offer Price of HK\$3.38 per Share	262,508	695,137	957,645	0.95

*Notes:*

- (1) The audited consolidated net tangible assets attributable to equity holders of the parent as at 30 April 2010 are extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the parent as at 30 April 2010 of RMB281,140,000 with an adjustment for intangible assets as at 30 April 2010 of RMB18,632,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.38 and HK\$3.38 per Share, respectively, after the deduction of the forecast underwriting fees and other related fees and expenses, and do not take into account of any Shares that may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised, the unaudited pro forma adjusted net tangible assets attributable to equity holders of the parent and unaudited pro forma adjusted consolidated net tangible assets per Share will increase. The estimated net proceeds from the Global Offering are translated at the exchange rate of HK\$1 = RMB0.8756.

## FINANCIAL INFORMATION

- (3) Details of valuation of the Group's properties as at 31 July 2010 are set out in Appendix IV to this prospectus. With reference to such valuation, there is a revaluation surplus of approximately RMB5,763,000 compared to the carrying values of the Group's properties as of 31 July 2010. The Group will not incorporate the revaluation surplus in the consolidated financial statements for the four months ended 30 April 2010 or the above unaudited pro forma adjusted consolidated net tangible assets because it is the Group's accounting policy to state the property interests, classified under the captions "Property, plant and equipment" and "Prepaid Land Lease Payments" in the Accountants' Report as set out in Appendix I to this prospectus, at cost less accumulated depreciation/amortisation and impairment rather than at revalued amounts.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 1,009,303,000 Shares are issued and outstanding as set out in the section headed "Share Capital" in this prospectus, and that the Over-allotment Option has not been exercised. The unaudited pro forma adjusted net tangible assets per Share are translated at the exchange rate of HK\$1 = RMB0.8756.

### PROFIT ESTIMATE FOR THE SIX MONTHS ENDED 30 JUNE 2010<sup>(Note 1)</sup>

Unaudited estimated consolidated net profit attributable to equity

holders of the parent for the six months ended 30 June 2010 . . . . . Not less than RMB109 million  
(equivalent to approximately HK\$124 million)

Unaudited pro forma estimated earnings per Share<sup>(Note 2)</sup> . . . . . Not less than RMB0.11  
(equivalent to approximately HK\$0.13)

#### *Notes:*

1. All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.
2. The unaudited pro forma estimated earnings per Share is calculated based on the unaudited estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 assuming that we had been listed since 1 January 2010 and a total of 1,009,303,000 Shares were issued and outstanding during the entire year. This calculation is based on the assumption of 252,400,000 Shares expected to be issued pursuant to the Global Offering. The unaudited estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 is based on the audited consolidated financial statements for the four months ended 30 April 2010 and an estimate of the remaining two months ended 30 June 2010. The Directors have undertaken to the Stock Exchange that our interim report for the six months ended 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules. The unaudited estimated consolidated net profit attributable to equity holders of the parent and unaudited pro forma estimated earnings per Share is translated at the exchange rate of HK\$1 = RMB0.8756.

## FINANCIAL INFORMATION

### PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix IV to this prospectus. DTZ Debenham Tie Leung Limited, an independent property valuer, has valued the properties owned and leased by us as at 31 July 2010. The text of their letters, summaries of values and valuation certificates are set out in Appendix IV to this prospectus.

A reconciliation of the net book value of the relevant property interests as at 30 April 2010 to their fair value as stated in Appendix IV to this prospectus is as follows:

	<i>RMB'000</i>
Net book value of our Group's property interests as at 30 April 2010	211,788
Additions	182
Depreciation	(2,598)
Disposals	–
Net book value of our Group's property interests as at 31 July 2010	<u>209,372</u>
Property interests not included in Appendix IV <sup>(Note)</sup>	(62,435)
Valuation surplus	<u>5,763</u>
Valuation amount as at 31 July 2010	<u><u>152,700</u></u>

*Note:* Property interests not included in Appendix IV to this prospectus represented mainly the annexure and fixtures of building which were classified as buildings in the consolidated statements of financial position, but they were not revalued by the independent valuer, for instance, pipeline structural steel truss, enclosures of land and rain water sewage system.

### DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. Dividend payments are discretionary and will be subject to the recommendation of our Board and approval of our Shareholders in general meetings or, in the case of interim dividends, subject to the approval of our Board in accordance with our Articles of Association. Our dividend payment amounts, if any, for a given year will be dependent upon our future results of operations, financial condition, capital requirements, legal and contractual restrictions and other factors that our Board may deem relevant. In addition, our controlling shareholder, subject to our Articles of Association, may influence our dividend policy.

Considering our financial position, we currently intend, in the absence of any circumstances that might reduce the amount of distributable profits whether by losses or otherwise, to distribute dividends for each of the financial years ending 31 December 2010 and 2011 that would amount in total to not less than 30% of the net profit available for distribution from ordinary activities attributable to equity holders of the parent for each of the relevant financial years. Such intention does not amount to any guarantee or representation or indication that our Company must or will declare and pay a dividend in such manner or declare and pay any dividend at all. After completion of the Global Offering, priority will be given to retained earnings in order to facilitate capital growth and expansion of our Group. Cash dividends on the shares, if any, will be paid in HK dollars.

## FINANCIAL INFORMATION

We are a holding company incorporated in the Cayman Islands and conduct our core business operations through our operating subsidiaries in China. Therefore, our profits available for dividend distributions are dependent on the profits available for distribution from our PRC subsidiaries. The PRC laws permit payment of dividends only out of net income as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are required to set aside a portion of their net income each year (not less than 10% of the net profit) to fund designated statutory reserve to recover the possible loss during future operation and to support the development of the Company. When the accumulated statutory reserve funds reach 50% of the registered capital of the Company, the Company may cease to appropriate net profit to the statutory reserves. These reserves are not distributable as cash dividends. As a result, our primary source of funds for dividend payments is subject to these and other legal restrictions and uncertainties.

The CIT Law provides that dividends sourced from PRC payable to “non-resident enterprises” shall be subject to PRC CIT at a rate of 20%, which rate is reduced to 10% by the Rules for Implementation of Corporate Income Tax Law of the PRC. Such dividend withholding tax rate may be further reduced by applicable treaties. According to the Arrangement between the Mainland of China and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise, and in any other case, 10% will be levied on the gross dividends. As Capitol International is a Hong Kong company and owns 100% as to Sanjiang Chemical and 43.86% as to Yongming Petrochemical, according to the said arrangement, any dividend that Sanjiang Chemical and/or Yongming Petrochemical paid are expected to be subject to a withholding tax at the rate of 5% if Capitol International is not considered as PRC resident enterprise for tax purposes under the CIT Law. On 27 October 2009, the State Administration of Taxation of the PRC issued the Notice on Interpretation and Determination of “Beneficial Owner” under Tax Treaties (Guo Shui Han [2009] No. 601) (關於如何理解和認定稅收協定中「受益所有人」的通知(國稅函)[2009]601號) (“**Circular 601**”). Circular 601 addresses which entities are treated as “beneficial owners” under any applicable tax treaty on dividends, interest and royalties entered into by the PRC. The PRC tax authorities must evaluate whether an applicant (income recipient) qualifies as a “beneficial owner” on a case-by-case basis based on the “substance over form” principle. There is no assurance that the PRC tax authorities would accept our application for the reduced withholding tax rate based on this principle. If our application for the reduced withholding tax rate is rejected by the PRC tax authorities, Capitol International would be subject to a withholding tax rate of 10% instead of 5%. The financial impact on our Group arising from the 10% withholding tax being imposed was RMB14.1 million, RMB22.5 million and RMB7.8 million for the year ended 31 December 2008, 2009 and for the four months ended 30 April 2010, respectively. The impact has been fully provided for in our Group’s financial statements.

### DISTRIBUTABLE AND STATUTORY RESERVES

Our Company was incorporated on 30 January 2009 and has not carried out any business since its date of incorporation except for transactions relating to the Reorganisation. Our Company did not have any reserve available for distribution to our Shareholders.

## **FINANCIAL INFORMATION**

As aforementioned, our PRC subsidiaries are subject to the requirement on accruing statutory reserve in accordance with applicable laws and regulations in the PRC. According to relevant PRC laws, foreign owned companies in the PRC are required to appropriate at least 10% of their net profits after taxation as statutory reserves. The appropriation of the statutory reserves must be made before the distribution of dividends to equity owners. The reserve can be used to recover possible loss during future operation and to support the development of the Company. When the accumulated statutory reserve funds reach 50% of the registered capital of the Company, the Company may cease to appropriate net profit to the statutory reserves.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that there had been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 30 April 2010, the date to which the latest audited financial statements of our Group were made up, up to the Latest Practicable Date.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

See the section headed “Business – Our strategies” in this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

The aggregate amount of the net proceeds from the Global Offering is estimated to be approximately HK\$672.7 million, excluding the exercise of the Over-allotment Option and after deducting underwriting fees and other expenses payable by our Company in connection with the Global Offering, assuming an Offer Price of HK\$2.88 per Share, which is the mid-point of the indicative range of the Offer Price of HK\$2.38 to HK\$3.38 per Share.

We intend to use the net proceeds of the Global Offering to fund the growth of our business and to upgrade our plant and equipment at our existing facilities. We estimate that we will use the net proceeds of the Global Offering as follows:

- up to 67%, or approximately HK\$450 million, will be used for the third and fourth phase construction of production facilities of ethylene oxide with designed annual production capacities of 60,000 MT and 100,000 MT respectively, as well as the construction, equipment purchase and operation in connection with new projects that we are able to identify in the future;
- up to 15%, or approximately HK\$100 million, will be used for potential acquisitions of existing surfactant manufacturing or related business in the PRC to further strengthen our leading market position in China;
- up to 12%, or approximately HK\$80 million, will be used for capital contribution and investment in Sanjiang Honam, a sino-foreign joint venture company jointly established and controlled by Honam Petrochemical Corp. (湖南石油化學株式會社) and us. The capital injected will be used for the construction of production facilities of Sanjiang Honam to produce ethylene oxide;
- up to 6%, or approximately HK\$40 million, will be used for construction of ethylene storage tanks with a total storage capacity of approximately 22,000 cubic metres; and
- the remaining balance, or approximately HK\$3 million, will be used for general working capital purposes.

Assuming the Over-allotment Option is not exercised, the aggregate amount of the net proceeds from the Global Offering is estimated to be approximately HK\$793.9 million if the Offer Price is to be fixed at the high-end of the indicative Offer Price range; and approximately HK\$551.6 million if the Offer Price is to be fixed at the low-end of the indicative Offer Price range.

## **FUTURE PLANS AND USE OF PROCEEDS**

The above allocation of the net proceeds from the Global Offering will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower point in the indicative Offer Price range. If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds to our Company from the offering of these additional shares will be approximately HK\$104.7 million, after deducting underwriting commissions (excluding any incentive fees that we may decide to pay to the Joint Bookrunners and estimated expenses payable), assuming an Offer Price of HK\$2.88 per Share, which is the mid-point of the indicative Offer Price range of the Offer Price of HK\$2.38 to HK\$3.38 per Share. Any additional proceeds received from any exercise of the Over-allotment Option will also be allocated to the above uses on a pro rata basis.

Pending the use of the net proceeds from the Global Offering for the purposes described above, and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorised financial institutions and/or licensed banks in Hong Kong. When we apply the net proceeds for the purposes described above, we will remit the net proceeds into China either by means of making contributions to newly-established PRC subsidiaries, increasing the registered share capital of our PRC subsidiaries or in the form of shareholder's loans to our PRC subsidiaries, all of which will be subject to the approval of and/or registration with competent authorities in accordance with relevant PRC laws and regulations. Until we start to remit the net proceeds of the Global Offering into China, we will not be required to obtain any approval, consent or registration to remit the net proceeds into China.

## UNDERWRITING

### **Hong Kong Underwriters**

BOCOM International Securities Limited

Daiwa Capital Markets Hong Kong Limited

China Everbright Securities (HK) Limited

### **UNDERWRITING ARRANGEMENTS AND EXPENSES**

#### **Hong Kong Public Offering**

##### ***Hong Kong Underwriting Agreement***

Pursuant to the Hong Kong Public Offering, our Company is offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, our Shares to be offered as mentioned herein (including the additional Shares to be issued pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Hong Kong Underwriting Agreement and the International Placing Agreement having been duly executed and delivered and having become unconditional in accordance with their respective terms, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

##### ***Grounds for termination***

The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the Hong Kong Offer Shares are subject to termination. The Hong Kong Underwriters shall be entitled to terminate their obligations under the Hong Kong Underwriting Agreement, if at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
  - i. any new law, statute, ordinance, rule, guideline, regulation, opinion, notice, circular, order, judgment, decree or ruling (“**Laws**”) or any change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority of the Cayman Islands, Hong Kong, the PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or

## UNDERWRITING

- ii. any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national or international financial, political, military, industrial, economic, currency exchange rates, exchange control, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting the Cayman Islands, Hong Kong, the PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
- iii. any suspension or limitation on trading in shares or securities generally on the New York Stock Exchange, the Stock Exchange, Tokyo Stock Exchange, the London Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or a disruption has occurred in securities settlement, payment or clearance services or procedures in or affecting the Cayman Islands, Hong Kong, the PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
- iv. a change or development occurs involving a change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations or currency exchange rates in the Cayman Islands, Hong Kong, the PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
- v. any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of our Company or any member of our Group, or customer confidence or sales of our Group's products, including any action, suit, proceeding, litigation or claim of any third party being threatened or instigated against our Company or any member of our Group, or a request of product withdrawal from the market by a government department or authority; or
- vi. any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk factors" in this prospectus; or
- vii. any moratorium on or disruption in banking activities or foreign exchange trading or settlement or clearance services in or affecting the Cayman Islands, Hong Kong, the PRC, the US, the United Kingdom, the European Union, Japan or any other relevant jurisdiction; or
- viii. any outbreak or escalation of hostilities (whether or not war is or has been declared) or act for terrorism or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving directly or indirectly the Cayman Islands, Hong Kong, the PRC, the US, the United Kingdom, the European Union, Japan or any

## UNDERWRITING

escalation thereof, or the declaration by the Cayman Islands, Hong Kong, the PRC, the US, the United Kingdom, the European Union or Japan of a national emergency or war; or

- ix. any event of force majeure, including without limitation any act of God, war, riot, public disorder, civil commotion, fire, flood, earthquake, explosion, outbreak of disease or epidemic, terrorism (whether or not responsibility has been claimed), labour dispute, strike or lock-out involving directly or indirectly the Cayman Islands, Hong Kong, the PRC, the US, the United Kingdom, the European Union or Japan; or
- x. the imposition of any economic sanctions, in whatever form, directly or indirectly, by Japan, the US, the United Kingdom, the European Union (or any member thereof) on Hong Kong, the PRC or any other relevant jurisdictions; or
- xi. a Director being charged or indicted or retained with an indictable offence or prohibited by operation of law or otherwise disqualified from directorship,

which, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):

- (A) is or may be or is likely to be materially adverse to or materially or prejudicially affect, the business, financial or other condition or prospects of our Company or our Group or, in the case of sub-paragraph (iv), to any present or prospective shareholder of our Company in his/her/its capacity as such; or
  - (B) has or might have or is likely to have a material adverse effect on the success of the Hong Kong Public Offering, the International Placing or the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or
  - (C) makes or will or may make it inadvisable, inexpedient, impracticable or not commercially viable to proceed with or to market the Hong Kong Public Offering, the International Placing or the Global Offering, or for a material part of the Hong Kong Underwriting Agreement, the International Placing Agreement, the Hong Kong Public Offering, the International Placing or the Global Offering to be performed or implemented or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (b) there comes to the notice of the Joint Bookrunners any matter or event showing any of the warranties given by our Company, the controlling shareholders and the executive Directors in the Hong Kong Underwriting Agreement to be untrue, inaccurate or misleading in any respect which is or, in the sole and absolute opinion of the Joint Bookrunners, likely to be, material in the context of the Global Offering when given or repeated; or
  - (c) there comes to the notice of the Joint Bookrunners any breach on the part of our Company, the controlling shareholders or the executive Directors of any of the provisions of the Hong Kong Underwriting Agreement or the International Placing Agreement; or

## UNDERWRITING

- (d) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute a material omission therefrom; or
- (e) any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by our Company in connection with the Global Offering (including any supplement or amendment thereto) was, has or may become untrue, incorrect or misleading; or
- (f) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Group pursuant to the indemnities referred to in the Hong Kong Underwriting Agreement; or
- (g) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole; or
- (h) a petition is presented for the winding-up or liquidation of our Company or any member of our Group or our Company or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group, which in the sole and absolute opinion of the Joint Bookrunners, may or is likely to be material in the context of the Global Offering provided that the Joint Bookrunners shall, to the extent practicable, seek to consult with our Company on the effect of any such development,

then the Joint Bookrunners may, and upon giving notice in writing to our Company and the Hong Kong Underwriters, terminate the Hong Kong Underwriting Agreement with immediate effect.

### **International Placing**

In connection with the International Placing, it is expected that our Company will enter into the International Placing Agreement with, among others, the Sole Global Coordinator, the International Underwriters and the Joint Bookrunners on or about 8 September 2010, shortly after determination of the Offer Price.

Under the International Placing Agreement, subject to the conditions set forth therein, the International Underwriters are expected to severally agree to subscribe or procure subscribers for the International Placing Shares initially being offered pursuant to the International Placing. It is expected that the International Placing Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Placing Agreement is not entered into, the Global Offering will not proceed.

## UNDERWRITING

We expect to grant to the Sole Global Coordinator, for itself and on behalf of the International Underwriters, the Over-allotment Option exercisable by the Sole Global Coordinator at any time and from time to time from the date of the International Placing Agreement until the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 37,860,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the International Placing, solely to cover over-allocations, if any, in the International Placing.

### Commissions and expenses

The Hong Kong Underwriters will receive an underwriting commission of 4% on the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. The International Underwriters will receive an underwriting commission of 4% on the aggregate Offer Price of the International Placing Shares initially offered under the International Placing. In addition, our Company may, in its sole discretion, pay to the Joint Bookrunners (for their respective accounts only) an additional incentive fee of up to 1% of the Offer Price multiplied by the total number of Offer Shares. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Joint Bookrunners (but not the Underwriters).

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$60 million in total (based on the Offer Price of HK\$2.88, being the mid-point of the indicative Offer Price range between HK\$2.38 and HK\$3.38, and assuming the Over-allotment Option is not exercised) and will be payable by us.

### UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Pursuant to Rule 10.07(1) of the Listing Rules, each of the controlling shareholders (namely Sure Capital and Mr. Guan) has undertaken to the Stock Exchange and our Company that except pursuant to the Global Offering (including the Over-allotment Option), he or it will not, and will procure that his or its associates or companies controlled by him or it or his or its nominees or trustees (as the case may be) will not, in the period commencing on the date by reference to which disclosure of his or its shareholding is made in this prospectus and ending on the date which is six months from the date on which dealings in our Shares commence on the Stock Exchange (the “**First Lock-up Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which he or it is shown by this prospectus to be the beneficial owner (whether direct or indirect).

Each of Sure Capital and Mr. Guan has further undertaken to the Stock Exchange and our Company that he or it will not, and will procure that his or its associates or companies controlled by him or it or his or its nominees or trustees (as the case may be) will not, in the period of six months immediately after the expiry of the First Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in the above paragraph if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a controlling shareholder (as defined under the Listing Rules) of our Company.

## UNDERWRITING

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the controlling shareholders (namely Sure Capital and Mr. Guan) has also undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his or its shareholding is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the securities of our Company commence on the Stock Exchange, he or it will:

- (1) when he or it pledges or charges any securities beneficially owned by him or it in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (2) when he or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company in writing of such indications.

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that save in connection with the Global Offering or the Over-allotment Option, no further Shares or securities convertible into equity securities of our Company will be issued by us, or form the subject of any agreement by us to such an issue, within six months from the date on which our Shares first commence dealing on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) except in the circumstances permitted pursuant to Rule 10.08 of the Listing Rules.

### UNDERTAKINGS PURSUANT TO THE UNDERWRITING AGREEMENTS

We have undertaken to each of the Joint Bookrunners, the Joint Sponsors, the Hong Kong Underwriters and the International Underwriters that except pursuant to the Global Offering (including the exercise of the Over-allotment Option), the Capitalisation Issue, the Share Option Scheme and unless in compliance with the requirements of the Listing Rules, we shall not at any time from the date of the Hong Kong Underwriting Agreement or the date of the International Placing Agreement (as the case may be) until the expiry of six months from the Listing Date, (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of the Shares or other securities of our Company or any interest therein (including but not limited to, any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any of the Shares or securities or interest therein); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or any interest therein, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise; or in the event of an issue or disposal of any Shares or any interest therein after the date falling six months after the Listing Date, we will take all reasonable steps to ensure that such an issue or disposal will not create a disorderly or false market for the Shares.

Each of Sure Capital and Mr. Guan has undertaken to each of us, the Joint Bookrunners, the Joint Sponsors, the Hong Kong Underwriters and the International Underwriters that during the period commencing from the date of the Hong Kong Underwriting Agreement or the date of the International Placing Agreement (as the case may be) and until the expiry of six months from the Listing Date (the

## UNDERWRITING

“**First Period**”), he or it will not, and will procure that none of his/its associates (as defined in the Listing Rules) or companies controlled by him/it or any nominee or trustee holding in trust for him/it will, except pursuant to the Global Offering, the Over-allotment Option and the Share Option Scheme, where applicable, and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares, debt capital or other securities of our Company or any interest therein held by him/it (including but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or other securities of the Company or any interest therein) as of the Listing Date or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares or securities or any interest therein as of the Listing Date, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

Each of Sure Capital and Mr. Guan has further undertaken to each of us, the Joint Bookrunners, the Joint Sponsors, the Hong Kong Underwriters and the International Underwriters that:

- (a) during the period of six months commencing on the date on which the First Period expires (the “**Second Period**”), he or it will not, and will procure that none of his/its associates (as defined in the Listing Rules) or companies controlled by him/it or any nominee or trustee holding in trust for him/it will, without the prior written consent of the Sole Global Coordinator, and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares, debt capital or other securities of our Company or any interest therein held by him/it (including but not limited to any securities that are convertible into or exercisable or exchangeable for or that represent the right to receive, any such Shares or such other securities or any interest therein) as of the Listing Date or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares or any interest therein as of the Listing Date, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so if, immediately following such transaction, it will result in Sure Capital and Mr. Guan and/or any companies controlled by him/it, his/its nominee or trustee ceasing to be a controlling shareholder (as defined in the Listing Rules) of our Company; and
- (b) in the event of a disposal by him/it of any of the Shares or securities or any interest therein during the Second Period, he/it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for any of the Shares or other securities of our Company.

## UNDERWRITING

Each of Sure Capital and Mr. Guan has undertaken to each of us, the Joint Bookrunners, the Joint Sponsors, the Hong Kong Underwriters and the International Underwriters that he/it shall, during the period commencing on the date of the Hong Kong Underwriting Agreement or the date of the International Placing Agreement (as the case may be) and ending on the date which is twelve months from the Listing Date:

- (a) upon any pledge or charge in favor of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or securities of our Company beneficially owned by him/it for a bona fide commercial loan, immediately inform us and the Joint Bookrunners in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
- (b) upon any indication received by him/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares will be disposed of, immediately inform us and the Joint Bookrunners in writing of such indications.

### **UNDERTAKINGS BY THE INDEPENDENT INVESTORS**

Each of the Ordinary Shares Investors and Preference Shares Investors has undertaken to each of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters and the International Underwriters) that during the period commencing from the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date, it will not and will procure that none of its associates (as defined in the Listing Rules) or companies controlled by it or any nominee or trustee holding in trust for it will, except pursuant to the Global Offering, the Over-allotment Option and the Stock Borrowing Agreement, where applicable, and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares, debt capital or other securities of our Company or any interest therein held by it (including but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such Shares or such other securities or any interest therein) as of the Listing Date or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares or any interest therein as of the Listing Date, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

Each of the New Investors and Pasicue has undertaken to each of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters and the International Underwriters) that during the First Period, it will not and will procure that none of its associates (as defined in the Listing Rules) or companies controlled by it or any nominee or trustee holding in trust for it will, except pursuant to the Global Offering, the Over-allotment Option and the Stock Borrowing Agreement, where applicable, and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares, debt capital or other securities of our Company or any interest therein held by it (including but not limited to any securities that are

## UNDERWRITING

convertible into or exercisable or exchangeable for, or that represent the right to receive, any such Shares or such other securities or any interest therein) as of the Listing Date or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares or any interest therein as of the Listing Date, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

Each of the New Investors and Pasicue has further undertaken to each of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters and the International Underwriters) that during the Second Period, it will not, and will procure that none of its associates (as defined in the Listing Rules) or companies controlled by it or any nominee or trustee holding in trust for it will, without the prior written consent of the Sole Global Coordinator, and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares, debt capital or other securities of our Company or any interest therein held by it (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such Shares or such other securities or any interest therein) as of the Listing Date or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares or any interest therein as of the Listing Date, whether any of the foregoing transactions is to be settled by delivery of such Shares or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

### **SPONSORS' AND UNDERWRITERS' INTEREST IN OUR COMPANY**

BOCOM Holdings held approximately 5.83% of the issued share capital of our Company immediately before completion of the Capitalisation Issue and the Global Offering and will hold approximately 4.37% of the issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering (but without taking into account the exercise of the Over-allotment Option). BOCOM Holdings, being the controlling shareholder of BOCOM Asia, is regarded as a member of the sponsor group of BOCOM Asia as defined in the Listing Rules. Accordingly, BOCOM Asia does not satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Daiwa satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Bookrunners and the other Underwriters will receive an underwriting commission of 4% of the aggregate Offer Price payable for the Offer Shares. Bocom Asia will receive a sponsor fee. In addition, our Company may, in its sole discretion, pay to the Joint Bookrunners (for their respective accounts only) an additional incentive fee of up to 1% of the Offer Price multiplied by the total number of Offer Shares. Particulars of these commission and expenses are set forth under the paragraph headed "Commissions and expenses" above.

Save as disclosed above, none of the Joint Bookrunners and the Underwriters is interested legally or beneficially in shares of our Company or any of its subsidiaries or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of its members nor any interest in the Global Offering.

## STRUCTURE OF THE GLOBAL OFFERING

### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. We intend to initially make available up to 252,400,000 Shares under the Global Offering, of which 227,160,000 Shares will be conditionally placed pursuant to the International Placing to professional, institutional and other investors and the remaining 25,240,000 Shares will be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offering (subject, in each case, to reallocation on the basis described below under “**The Hong Kong Public Offering**”).

The 252,400,000 Offer Shares initially being offered in the Global Offering will represent approximately 25.007% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting”.

Investors may apply for the Shares under the Hong Kong Public Offering or apply for or indicate an interest for the Shares under the International Placing, but may not apply under both of these methods for the Offer Shares. In other words, you may only receive Offer Shares under either the Hong Kong Public Offering or the International Placing, but not under both of these methods.

### THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a several basis under the terms of the Hong Kong Underwriting Agreement and is subject to the Company and the Joint Bookrunners, on behalf of the Underwriters, agreeing on the Offer Price. The Hong Kong Public Offering and the International Placing are subject to the conditions set forth in the subsection headed “Conditions of the Global Offering” herein. The Hong Kong Underwriting Agreement and the International Placing Agreement are expected to be conditional upon each other.

#### Number of Shares initially offered

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set forth in the Hong Kong Underwriting Agreement and described in the section below headed “Conditions of the Global Offering”) for the subscription in Hong Kong of, initially 25,240,000 Shares at the Offer Price (representing approximately 10% of the total number of the Offer Shares).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

#### Allocation

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

## STRUCTURE OF THE GLOBAL OFFERING

Subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering, the total number of Shares available under the Hong Kong Public Offering will represent approximately 2.5% of the Company's enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue assuming that the Over-allotment Option is not exercised. It is to be divided equally into two pools for allocation purposes (subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering): pool A and pool B. The Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for Shares with an aggregate subscription price of HK\$5 million or less (excluding the amounts of brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%). The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to successful applicants who have applied for our Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and may only apply for Hong Kong Offer Shares in either pool A or pool B but not in both pools. Multiple or suspected multiple applications within pool A or pool B, and between the two pools, and any application for more than 12,620,000 Hong Kong Offer Shares will be rejected.

### **Reallocation**

The allocation of the Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, or (iii) 100 times or more of the number of Shares initially available under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing, such that the total number of Shares available under the Hong Kong Public Offering will be increased to 75,720,000 Shares (in the case of (i)), 100,960,000 Shares (in the case of (ii)) and 126,200,000 Shares (in the case of (iii)) representing approximately 30%, 40% and 50% of the Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners may, in their sole discretion, allocate Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Bookrunners deem appropriate.

## STRUCTURE OF THE GLOBAL OFFERING

### Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application may be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he or she has been or will be placed or allocated Offer Shares under the International Placing.

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$3.38 per Share in addition to any brokerage fee, SFC transaction levy and Stock Exchange trading fee payable on each Share. If the Offer Price, as finally determined in the manner described in the section headed "Pricing of the Global Offering" below, is less than the maximum price of HK\$3.38 per Share, appropriate refund payments (including the brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Please refer to the section headed "How to apply for the Hong Kong Offer Shares" for further details.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

### THE INTERNATIONAL PLACING

The International Placing is expected to be fully underwritten by the International Underwriters on a several basis. The Company expects to enter into the International Placing Agreement relating to the International Placing on the Price Determination Date.

### Number of Shares offered

Subject to reallocation as described above, the number of Offer Shares to be initially offered under the International Placing will be 227,160,000 Shares, representing approximately 90% of the Offer Shares under the Global Offering.

### Allocation

Pursuant to the International Placing, 227,160,000 Offer Shares will be conditionally placed on behalf of the Company, by the International Underwriters or through selling agents appointed by them. The International Placing will involve selective marketing of the Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of International Placing Shares will be determined by the Joint Bookrunners, and will be effected in accordance with the "book-building" process described in the section headed "Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares,

## STRUCTURE OF THE GLOBAL OFFERING

and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the Company's benefit and that of the Shareholders as a whole.

The Directors, the Joint Bookrunners (on behalf of the Underwriters) and the Company will take reasonable steps to identify and reject applicants under the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Offer Shares in the Hong Kong Public Offering.

### OVER-ALLOTMENT OPTION AND STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Company intends to grant an Over-allotment Option to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Placing Agreement until the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering and from time to time, to require the Company to allot and issue up to an aggregate of 37,860,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share at which Offer Shares were initially offered under the International Placing, to cover over-allocations in the International Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. The Sole Global Coordinator may, at its option, also cover such over-allocations by purchasing the Offer Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of Over-allotment Option, or by a combination of these means or otherwise as may be permitted under applicable laws, rules and regulations. If the Sole Global Coordinator exercises the Over-allotment Option in full, the additional Offer Shares will represent approximately 3.75% of the Company's enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

In order to facilitate settlement of over-allocations in connection with the International Placing, BOCOM Holdings has entered into the Stock Borrowing Agreement. Under the Stock Borrowing Agreement, BOCOM Holdings agrees with BOCOM Securities, that if requested by BOCOM Securities, it will, subject to the terms of the Stock Borrowing Agreement, make available to BOCOM Securities up to 37,860,000 Shares held by it, by way of stock lending, in order to cover over-allocations in connection with the International Placing, if any.

The Stock Borrowing Agreement, in compliance with Rule 10.07(3) of the Listing Rules, provides that:

- such stock borrowing arrangement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from BOCOM Holdings under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;

## STRUCTURE OF THE GLOBAL OFFERING

- the same number of Shares so borrowed may be returned to BOCOM Holdings or its nominees (as the case may be) within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;
- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable listing rules, laws, rules and regulatory requirements; and
- no payment will be made to BOCOM Holdings by BOCOM Securities in relation to such borrowing arrangement.

## PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring International Placing Shares. Prospective professional, institutional and other investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, when market demand for the Shares will be determined, which is expected to be on or around Wednesday, 8 September 2010, and in any event on or before Tuesday, 14 September 2010, by agreement between the Joint Bookrunners, on behalf of the Underwriters, and our Company and the number of Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$3.38 per Offer Share and is expected to be not less than HK\$2.38 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Global Offering must pay, on application, the maximum price of HK\$3.38 per Offer Share plus 1% brokerage fee, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee amounting to a total of HK\$3,414.11 per board lot of 1,000 Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus. If the Offer Price, as finally determined in the manner described below, is lower than HK\$3.38, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus monies) to successful applicants, without interest. Please refer to the section headed “How to apply for Hong Kong Offer Shares” for further details.

The Joint Bookrunners, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with our Company’s consent, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In case of such a reduction, our Company will, as soon as practicable following the decision to make the reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong

## STRUCTURE OF THE GLOBAL OFFERING

Economic Times (in Chinese) and the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of our Company ([www.jxsjchem.com](http://www.jxsjchem.com)) notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range. Upon issue of these notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners, on behalf of the Underwriters, and us, will be fixed within this revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. The notices will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of such reduction. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once they are submitted, even if the number of Hong Kong Offer Shares and/or the Offer Price range is reduced as described in this paragraph. In the absence of any notice of reduction published as described in this paragraph, the Offer Price, if agreed upon between the Company and the Joint Bookrunners, on behalf of the Underwriters, will be within the Offer Price range as stated in the prospectus.

The net proceeds of the Global Offering accruing to the Company (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$551.6 million, assuming an Offer Price of HK\$2.38 per Share, or approximately HK\$793.9 million, assuming an Offer Price of HK\$3.38 per Share (or if the Over-allotment Option is exercised in full, approximately HK\$638.1 million, assuming an Offer Price of HK\$2.38 per Share, or approximately HK\$916.7 million, assuming an Offer Price of HK\$3.38 per Share).

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, 15 September 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of our Company ([www.jxsjchem.com](http://www.jxsjchem.com)).

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the initial public offer prices of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, BOCOM Securities, as stabilising manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. BOCOM Securities has been appointed as stabilising manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the Hong Kong Securities and Futures Ordinance.

## STRUCTURE OF THE GLOBAL OFFERING

Any such stabilising activity will be made in compliance with all applicable laws, rules and regulations in place in Hong Kong on stabilisation including the Securities and Futures (Price Stabilising) Rules made under the SFO. However, there is no obligation on BOCOM Securities, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of BOCOM Securities, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Any such stabilising activity is required to be brought to an end within 30 days from the last day for lodging application under the Hong Kong Public Offering which is expected to be on or around Wednesday, 8 September 2010. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being 37,860,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Following any over-allotment of Shares in connection with the Global Offering, BOCOM Securities, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period to cover such over-allotment by (among other methods) making purchases in the secondary market, selling Shares to liquidate a position held as a result of those purchases, exercising the Over-allotment Option in full or in part, stock borrowing or by any combination of any of the foregoing.

The possible stabilising action which may be taken by BOCOM Securities, its affiliates or any person acting for it in connection with the Global Offering may involve (among other things) (i) purchases of Shares, (ii) establishing, hedging and liquidating positions in Shares, (iii) exercising the Over-allotment Option in whole or in part, (iv) stock borrowing and/or (v) offering or attempting to do any of (i), (ii), (iii) or (iv) above.

Specifically, prospective applicants for and investors in Offer Shares should note that:

- BOCOM Securities, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which BOCOM Securities, its affiliates or any person acting for it will maintain such a position;
- liquidation of any such long position by BOCOM Securities, its affiliates or any person acting for it may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the date expected to be the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;

## STRUCTURE OF THE GLOBAL OFFERING

- the price of any security (including the Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 16 September 2010, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:30 a.m. on Thursday, 16 September 2010.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares being offered pursuant to the Global Offering (including the additional Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment), and such listing and permission not having been revoked prior to the commencement of dealings in Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined and the execution and delivery of the International Placing Agreement on or around the Price Determination Date;
- (iii) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Bookrunners, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements; and
- (iv) in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

**If, for any reason, the Offer Price is not agreed between the Company and the Joint Bookrunners (on behalf of the Underwriters) by Tuesday, 14 September 2010, the Global Offering will lapse.**

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

## STRUCTURE OF THE GLOBAL OFFERING

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section headed “How to apply for Hong Kong Offer Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

We expect to issue share certificates for the Offer Shares on Wednesday, 15 September 2010. Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Thursday, 16 September 2010 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering – Grounds for termination” has not been exercised.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

There are three ways to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by either using a **WHITE** or **YELLOW** Application Form, by giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf or by submitting an electronic application to the **HK eIPO White Form** Service Provider under the **HK eIPO White Form** service through the designated website [www.hkeipo.hk](http://www.hkeipo.hk). Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying using a **WHITE** or **YELLOW** Application Form, by giving electronic application instructions to HKSCC or to the designated **HK eIPO White Form** Service Provider.

### 1. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

#### Which Application Form to Use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

*Note:* Save under the circumstances permitted by the Listing Rules, the Hong Kong Offer Shares are not available to existing beneficial owners of the Shares in the Company or any of its subsidiaries or the associates of any of them, the directors or chief executive of the Company or any of its subsidiaries or the associates of any of them or the connected persons (as defined in the Listing Rules) of the Company or any of its subsidiaries or persons who will become connected persons of the Company or any of its subsidiaries immediately upon completion of the Global Offering or not outside the United States or a U.S. person (as defined in Regulation S under the U.S. Securities Act) or persons who do not have a Hong Kong address.

#### Where to collect the WHITE and YELLOW Application Forms

You can collect a **WHITE** Application Form and a prospectus from:

- (a) Any of the following addresses of the Hong Kong Underwriters:

Name	Address
BOCOM International Securities Limited	9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
Daiwa Capital Markets Hong Kong Limited	Level 26, One Pacific Place 88 Queensway Hong Kong
China Everbright Securities (HK) Limited	36/F., Far East Finance Centre 16 Harcourt Road Hong Kong

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (b) or at any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch:

	Branch Name	Address
<b>Hong Kong Island</b>	Hong Kong Branch	20 Pedder Street, Central
	King's Road Sub-Branch	67-71 King's Road
	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
<b>Kowloon</b>	Kowloon Sub-Branch	G/F., 563 Nathan Road
	Kwun Tong Sub-Branch	Shop A, G/F., Hong Ning Court, 55 Hong Ning Road
	Hunghom Sub-Branch	Flat/Rm A6, G/F., Wing Kwai Bldg, 1-3 Tak Man Street, Whampoa Estate
<b>New Territories</b>	Market Street Sub-Branch	G/F., 53 Market Street, Tsuen Wan

- (c) or at any of the following branches of Wing Lung Bank:

	Branch Name	Address
<b>Hong Kong Island</b>	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	North Point Branch	361 King's Road
<b>Kowloon</b>	Tsim Sha Tsui Branch	4 Carnarvon Road
	Lam Tin Sceneway Plaza Branch	Shop 59, 3/F Sceneway Plaza, 8 Sceneway Road
	Sham Shui Po Branch	111 Tai Po Road
<b>New Territories</b>	Shatin Plaza Branch	21 Shatin Centre Street

## HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus from:

- (a) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong during normal business hours from 9:00 a.m. on Friday, 3 September 2010 until 12 noon on Wednesday, 8 September 2010; or
- (b) Your stockbroker, who may have such Application Forms and this prospectus available.

### How to complete the **WHITE** and **YELLOW** Application Forms

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) or at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the **WHITE** or **YELLOW** Application Form, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- instruct and authorise our Company and/or the Joint Bookrunners and/or the Hong Kong Underwriters (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
- undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Articles of Association;
- confirm that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making the application, and not on any other information or representation concerning our Company and you agree that neither our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers or the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- agree (without prejudice to any other rights which you may have) that once the application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- if the application is made for your own benefit, warrant that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider via **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk));
- if the application is made by an agent on your behalf, warrant that you have validly and irrevocably conferred on the agent all necessary power and authority to make the application;
- if you are an agent for another person, warrant that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider via **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)), and that you are duly authorised to sign the Application Form or to give electronic application instruction as that other person's agent;
- undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares in the International Placing, nor otherwise participate in the International Placing;
- warrant the truth and accuracy of the information contained in your application;
- agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and their respective advisers and agents any personal data and information about you or the person(s) for whose benefit you have made the application;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- undertake and agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- represent and warrant that you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing this application and you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S) described under the U.S. Securities Act;
- agree that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offering made available by the Company;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- authorise our Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on our register of members of our Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send or deposit any share certificate(s) (where applicable) to you or into CCASS (as the case may be) and/or to send any refund cheque(s) (where applicable) to you or (in case of joint applicants) the first-named applicant on the Application Form by ordinary post at your own risk to the address stated on your Application Form (unless you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated on the Application Form that you will collect the share certificate(s) (where applicable and if you use a **WHITE** Application Form) and/or refund cheques (where applicable) in person in accordance with the terms set out in this prospectus);
- understand that these declarations and representations will be relied upon by our Company, the Sole Global Coordinator and the Joint Sponsors in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to your application;
- if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers or the Underwriters nor any of their respective directors, employees, partners, agents, officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe, or any actions arising from your rights and obligations under the terms and conditions set out in this prospectus;
- agree with us, for ourselves and the benefit of each of our Shareholders, and we agree with each of our Shareholders, to observe and comply with the Cayman Companies Law, our Memorandum of Association and Articles of Association;
- agree with us, for ourselves and the benefit of each of our Shareholders, that the Shares are freely transferable by the holder(s) thereof;
- authorise us to enter into a contract on your behalf with each of our Directors and officers under which such Directors and Officers undertake to observe and comply with their obligations to Shareholders stated in our Memorandum of Association and Articles of Association;
- confirm that you are aware of the restrictions on offering of the Hong Kong Offer Shares described in this prospectus;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and Application Forms and agree to be bound by them.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

**(a) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

- i. the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

**(b) If the application is made by an individual CCASS Investor Participant:**

- i. the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card number; and
- ii. the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

**(c) If the application is made by a joint individual CCASS Investor Participant:**

- i. the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
- ii. the participant I.D. must be inserted in the appropriate box in the Application Form.

**(d) If the application is made by a corporate CCASS Investor Participant:**

- i. the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and
- ii. the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. and/or company chop bearing its company name or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification code for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to above, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee are deemed to do the followings:

- (a) agree that any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;
- (b) agree that each of HKSCC and HKSCC Nominees reserves the right at its absolute discretion (1) not to accept any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are a joint applicant, to the name of the first-named applicant) at your own risk and costs; (3) to cause such allotted Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, in the name of the first-named applicant) and in such a case, to post the share certificates for such allotted Hong Kong Offer Shares at your own risk to the address stated on the Application Form by ordinary post or to make available the same for your collection;
- (c) agree that each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
- (d) agree that neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
- (e) agree that neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

If your application is made through a duly authorised attorney, our Company and the Joint Bookrunners (as our Company's agents and on behalf of the Hong Kong Underwriters) may accept it at their discretion, and subject to any conditions our Company thinks fit, including evidence of the authority of your attorney. Our Company, the Joint Bookrunners (as the agents of our Company) or their respective agents and nominees will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

### How to make payment for the application

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name. This name must either be pre-printed on the cheque or be endorsed on the reverse of the cheque by an authorised signatory of the bank. The account name must correspond with the name of the applicant on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
- be made payable to “Bank of Communications (Nominee) Co. Ltd. – China Sanjiang Public Offer”;
- be crossed “Account Payee Only”; and
- not be post-dated.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker’s cashier order, the cashier order must:

- be in Hong Kong dollars;
- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker’s cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker’s cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the reverse of the banker’s cashier order must be the same as the name of the first-named applicant;
- be made payable to “Bank of Communications (Nominee) Co. Ltd. – China Sanjiang Public Offer”;
- be crossed “Account Payee Only”; and
- not be post-dated.

Your application may be rejected if your banker’s cashier order does not meet all these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Wednesday, 8 September 2010. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker’s cashier order.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 2. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

#### General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer Service Center

2/F Vicwood Plaza

199 Des Voeux Road

Central

Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our Hong Kong Share Registrar.

#### **Giving Electronic Application Instructions to HKSCC to Apply for Hong Kong Offer Shares by HKSCC Nominees On Your Behalf**

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- (b) HKSCC Nominees does the following things on behalf of each such person:
- i. agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of the HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
  - ii. undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
  - iii. undertakes and confirms that that person has not indicated an interest for, applied for or taken up or indicated an interest for, any shares under the International Placing nor otherwise participated in the International Placing;
  - iv. (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit);
  - v. (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person) and that that person is duly authorised to give those instructions as that other person's agent;
  - vi. understands that the above declaration will be relied upon by our Company, the Joint Sponsors and the Sole Global Coordinator in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
  - vii. authorises our Company to place the name of HKSCC Nominees on the register of members as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) (where applicable) and/or refund monies (where applicable) in accordance with the arrangements separately agreed between our Company and HKSCC;
  - viii. confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
  - ix. confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf save as set out in any supplement to this prospectus;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- x. agrees that our Company, the Sole Global Coordinator, the Joint Sponsors, the Joint Lead Managers, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplemental thereto;
- xi. agrees to disclose that person's personal data to our Company, our Hong Kong Share Registrar, receiving banker(s), the Sole Global Coordinator, the Joint Sponsors, the Joint Lead Managers, the Joint Bookrunners, the Underwriters and/or their respective agents and any information which they may require about that person;
- xii. agrees (without prejudice to any other rights which that person may have) that once the application to HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- xiii. agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday, or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday, or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday, or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- xiv. agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by the Company;
- xv. agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- xvi. agrees with us, for ourselves and for the benefit of each of our Shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Cayman Companies Law, the Companies Ordinance and the Articles of Association;
- xvii. agrees with us (for ourselves and for the benefit of each of our Shareholder) that the Shares are freely transferable by the holders thereof; and
- xviii. agrees that the person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the Offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

### Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your behalf, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for those purposes of considering whether multiple applications have been made.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### Minimum Subscription Amount and Permitted Multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Personal Data

The section of the Application Forms headed “Personal Data” applies to any personal data held by our Company and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

### Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and all other parties involved in the Global Offering take no responsibility for the application and provided no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE**, or **YELLOW** Application Form; or (ii) go to HKSCC’s Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 8 September 2010, or such later date as described in the section headed “Effect of bad weather on the opening of the application lists” below.

## 3. APPLYING BY USING HK eIPO WHITE FORM

### General

You may apply through **HK eIPO White Form** service by submitting an application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk). If you apply through **HK eIPO White Form** service, the Shares will be issued in your own name.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### How to complete the HK eIPO White Form

- (a) Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at **www.hkeipo.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **HK eIPO White Form** Service Provider and may not be submitted to our Company.
- (b) In addition to the terms and conditions set out in this prospectus, the designated **HK eIPO White Form** Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at **www.hkeipo.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (c) By submitting an application to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you are deemed to have authorised the designated **HK eIPO White Form** Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.
- (d) You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.hkeipo.hk**.
- (e) You should give electronic application instructions through the **HK eIPO White Form** service at the times set out in the subsection headed “Members of the public – Time for applying for Hong Kong Offer Shares” below.

### How to Make Payment for the Application

You should make payment for your application made by **HK eIPO White Form** service in accordance with the methods and instructions set out in the designated website at **www.hkeipo.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, 8 September 2010, or such later time as described under the subsection headed “Effect of bad weather on the opening of the application lists” below, the designated **HK eIPO White Form** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.hkeipo.hk**.

### Multiple applications

If you apply by using **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different

## HOW TO APPLY FOR HONG KONG OFFER SHARES

application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service by giving electronic application instructions through the designated website at **www.hkeipo.hk** and completing payment in respect of such electronic application instructions, or of submitting one application through the **HK eIPO White Form** service and one or more applications by any other means, all of your applications are liable to be rejected.

### Warning

The application for Hong Kong Offer Shares through the **HK eIPO White Form** service is only a facility provided by the designated **HK eIPO White Form** Service Provider to public investors. Our Company, our Directors, the Sole Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and all other parties involved in the Global Offering take no responsibility for such applications, and provide no assurance that applications through the **HK eIPO White Form** service will be submitted to the Company or that you will be allotted any Hong Kong Offer Shares.

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please refer to the subsection headed “How many applications you may make” below.

### Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through **HK eIPO White Form** service to the **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** Service Provider, the designated **HK eIPO White Form** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form** Service Provider on the designated website at **www.hkeipo.hk**.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 4. HOW MANY APPLICATIONS YOU MAY MAKE

**You may make more than one application for the Hong Kong Offer Shares if and only if:**

You are a nominee, in which case you may (i) give **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant) or (ii) use a **WHITE** or **YELLOW** Application Form and lodge more than one application in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees”, you must include:

- an account number; or
- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form or by submitting an application to the **HK eIPO White Form** Service Provider through the designated website for the **HK eIPO White Form** or by giving **electronic application instructions** to HKSCC, you:

- (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk));
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application form or by giving electronic application instructions to HKSCC or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)) and that you are duly authorised to sign the Application Form as that other person’s agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by submitting an application to the **HK eIPO White Form** Service Provider through the designated website or by giving **electronic application instructions** to HKSCC via CCASS; or

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- apply both (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service ([www.hkeipo.hk](http://www.hkeipo.hk)); or
- apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or by submitting an application to the **HK eIPO White Form** Service Provider through the designated website or by giving **electronic application instructions** to HKSCC via CCASS for more than 12,620,000 Shares, being 50% of the Hong Kong Offer Shares initially being available for subscription under the Hong Kong Public Offering, as more particularly described in the section entitled “Structure of the Global Offering – The Hong Kong Public Offering”; or
- have applied for or taken up, or indicated an interest in applying for or taking up, or have been or will be placed with (including conditionally and/or provisionally) any International Placing Shares under the International Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

**An unlisted company** means a company with no equity securities listed on the Stock Exchange.

**Statutory control** in relation to a company means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 5. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer price is HK\$3.38 per Hong Kong Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005% in full. This means that for every board lot of 1,000 Hong Kong Offer Shares you will pay approximately HK\$3,414.11. The Application Forms have tables showing the exact amount payable for certain multiples of Hong Kong Offer Shares up to 12,620,000.

You must pay the maximum Offer Price, plus brokerage of 1%, SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005% in full upon application for Hong Kong Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Forms (if you apply by an Application Form).

If your application is successful, brokerage of 1% is paid to participants of the Stock Exchange, the SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% are paid to the Stock Exchange (in the case of the SFC transaction levy of 0.004%, collected on behalf of the SFC).

### 6. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, our Company will refund your application monies, including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of dispatch or refund cheques will be retained for the benefit of our Company.

If your application is accepted only in part, our Company will refund the appropriate portion of your application monies, including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$3.38 per Hong Kong Offer Share, appropriate refund payments, including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the paragraph headed "Despatch/collection of share certificates and refund of application monies".

In the contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Bookrunners, cheques for applications for certain small denominations of Hong Kong Offer Shares on Application Forms (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Wednesday, 15 September 2010 in accordance with the various arrangements as described in this section.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### 7. MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR HONG KONG OFFER SHARES

#### WHITE and YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, 8 September 2010, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of Communications Co., Ltd. Hong Kong Branch or Wing Lung Bank listed under the subsection headed “Where to collect the **WHITE** and **YELLOW** Application Forms” above at the following times:

Friday, 3 September 2010	–	9:00 a.m. to 5:00 p.m.
Saturday, 4 September 2010	–	9:00 a.m. to 1:00 p.m.
Monday, 6 September 2010	–	9:00 a.m. to 5:00 p.m.
Tuesday, 7 September 2010	–	9:00 a.m. to 5:00 p.m.
Wednesday, 8 September 2010	–	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 8 September 2010.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until the closing of the application lists.

#### Electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 3 September 2010	–	9:00 a.m. to 8:30 p.m. <sup>(Note)</sup>
Saturday, 4 September 2010	–	8:00 a.m. to 1:00 p.m. <sup>(Note)</sup>
Monday, 6 September 2010	–	8:00 a.m. to 8:30 p.m. <sup>(Note)</sup>
Tuesday, 7 September 2010	–	8:00 a.m. to 8:30 p.m. <sup>(Note)</sup>
Wednesday, 8 September 2010	–	8:00 a.m. <sup>(Note)</sup> to 12:00 noon

*Note:* These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 3 September 2010 until 12:00 noon on Wednesday, 8 September 2010 (24 hours daily, except the last application day).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### HK eIPO White Form

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** from 9:00 a.m. on Friday, 3 September 2010 until 11:30 a.m. on Wednesday, 8 September 2010 or such later time as described under the subsection headed “Effect of bad weather on the opening of the applications lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 8 September 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subsection headed “Effect of bad weather on the opening of the application lists” below.

You will not be permitted to submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

### 8. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists of the Hong Kong Public Offering will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 8 September 2010. Instead they will be open from 11:45 a.m. to 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application of the Hong Kong Offer Shares do not open and close on Wednesday, 8 September 2010, or if there is a tropical cyclone warning signal number 8 or above or “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected timetable”, such dates may be affected and an announcement will be made in such event.

### 9. PUBLICATION OF RESULTS

A notification announcement under Rule 2.17A of the Listing Rules which also includes the Offer Price, an indication of the level of interest in the International Placing, the results of applications under the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares will be published by us on Wednesday, 15 September 2010 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (**www.jxsjchem.com**) and the website of the Stock Exchange (**www.hkex.com.hk**).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering can be found in our announcement to be posted on our Company's website at **www.jxsjchem.com** and the website of the Stock Exchange at **www.hkex.com.hk** by no later than 9:00 a.m. on Wednesday, 15 September 2010;
- Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at **www.tricor.com.hk/ipo/result** on a 24-hour basis from 8:00 a.m. on Wednesday, 15 September 2010 to 12:00 midnight on Tuesday, 21 September 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 15 September 2010 to Monday, 20 September 2010 (excluding Saturday, 18 September 2010 and Sunday, 19 September 2010);
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, 15 September 2010 to Friday, 17 September 2010 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to apply for Hong Kong Offer Shares – Where to collect the WHITE and YELLOW Application Forms".

### 10. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the relevant Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allotted to you.

- **If your application is revoked:**

By completing and submitting an Application Form or giving an **electronic application instruction** to HKSCC via CCASS or to the designated **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked until after the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your electronic application instruction to HKSCC and an application has been made by HKSCC Nominees on your behalf

## HOW TO APPLY FOR HONG KONG OFFER SHARES

accordingly or to the designated **HK eIPO White Form** Service Provider. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before until after the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday, or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicant(s) shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification of the results of allotment in the manner as described in the subsection headed “Publication of results” and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

- **Full discretion of our Company or its agents to reject or accept your application:**

Our Company, the Joint Bookrunners (as the agent of our Company) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application.

Our Company, the Joint Bookrunners (in their capacity as the Company’s agent) or their respective agents or nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of the Hong Kong Offer Shares is void:**

The allotment of the Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply for a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Shares in issue and to be issued as mentioned in this prospectus either:

- within **three** weeks from the closing date of the application lists in respect of the Hong Kong Public Offering, or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists in respect of the Hong Kong Public Offering.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- **You will not receive any allotment if:**
  - you make multiple applications or suspected multiple applications;
  - you or the person(s) for whose benefit you are applying have applied for or taken up, or indicated an interest in, or have been or will be placed with (including conditionally and/or provisionally) the International Placing Shares.
  - your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
  - your payment is not made correctly;
  - you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
  - any of the Underwriting Agreements does not become unconditional in accordance with its terms or is terminated in accordance with its terms;
  - our Company or the Joint Bookrunners (on behalf of our Company) believe(s) that the acceptance of your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address appeared in the Application Form is located; or
  - your application is for more than 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering.

### 11. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK\$3.38 per Hong Kong Offer Share (excluding brokerage 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering – Conditions of the Global Offering” or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

## HOW TO APPLY FOR HONG KONG OFFER SHARES

No temporary document of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) for applications on **WHITE** Application Forms or by giving electronic instructions to the designated **HK eIPO White Form** Service Provider under **HK eIPO White Form** ([www.hkeipo.hk](http://www.hkeipo.hk)): (i) share certificate(s) for all Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applications on **YELLOW** Application Forms; share certificates for the Hong Kong Offer Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms or by giving electronic instructions to the designated **HK eIPO White Form** Service Provider under **HK eIPO White Form**, all refunds will be made by cheques crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful, or (ii) all the application monies, if the application is wholly unsuccessful; and or (iii) the difference between the Offer Price and the maximum Offer Price per Hong Kong Offer Share paid on application in the event that the Offer Price is less than the Offer Price per Hong Kong Offer Share initially paid on application, in each case including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong identity card number or passport number, or, if you are joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, where applicable. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number or passport number for encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the Offer Price per Hong Kong Offer Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms and **HK eIPO White Form**, and share certificates for wholly and partially successful applicants under **WHITE** Application Forms and **HK eIPO White Form** are expected to be posted on or around Wednesday, 15 September 2010. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates for the Hong Kong Offer Shares will only become valid certificates of title at 8:00 a.m. on Thursday, 16 September 2010 provided that the Global Offering has become unconditional in all respects and the right of termination described in the section headed “Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering – Grounds for Termination” has not been exercised.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

**(a) If you apply using a WHITE Application Form:**

If you apply for 1,000,000 Hong Kong Offer Shares or more and have indicated your intention in your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person from Tricor Investor Services Limited and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 15 September 2010 or such other date as notified by our Company in the newspapers as the date of collection/dispatch of refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 15 September 2010 by ordinary post and at your own risk.

**(b) If you apply using a YELLOW Application Form:**

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, 15 September 2010, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominee.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (Other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on Wednesday, 15 September 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC or HKSCC Nominees before 5:00 p.m. on Wednesday, 15 September 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

**(c) If you apply by giving electronic application instructions to HKSCC**

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instructions is given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of application monies*

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant Stock Account on Wednesday, 15 September 2010, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, it will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner described in the subsection headed "Publication of results" on Wednesday, 15 September 2010. You should check the announcement published by our Company and report any discrepancies to HKSCC or HKSCC Nominees before 5:00 p.m. on Wednesday, 15 September 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). Immediately after the credit of the Hong Kong Offer shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the Offer Price per Hong Kong Offer Share initially paid on application, in each case including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 15 September 2010. No interest will be paid thereon.

### (d) If you apply through HK eIPO White Form

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** and your application is wholly or partially successful, you may collect your share certificate(s) and/or refund cheque(s) (where applicable) in person from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 15 September, 2010, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of share certificates/refund cheques.

If you do not collect your share certificate(s) and/or refund cheque(s) (where applicable) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** on Wednesday, 15 September 2010 by ordinary post and at your own risk.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply through the **HK eIPO White Form** service by paying the application money through a single bank account, e-Auto Refund payment instructions for excessive application money (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the initial price per Offer Share paid on application will be despatched to your application payment bank on Wednesday, 15 September 2010.

If you apply through the **HK eIPO White Form** service by paying the application money through multiple bank accounts, refund cheque(s) for excessive application money (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the initial price per Offer Share on application will be despatched to you to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider on Wednesday, 15 September 2010 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **HK eIPO White Form** Service Provider set out above in the subsection headed “Applying by Using HK eIPO White Form – Additional information”.

### 12. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on Thursday, 16 September 2010.

The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares is 2198.

### 13. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares of the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

### 14. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (the “Ordinance”) came into effect in Hong Kong 20 December 1996. The Personal Information Collection Statement below informs the applicant for and holder of the Shares of the policies and practices of our Company and our Hong Kong Share Registrar in relation to personal data and the Ordinance.

#### (a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and our Hong Kong Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of our Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or the despatch of refund cheque(s) to which you are entitled.

It is important that holders of securities inform our Company and our Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

#### (b) Purposes

The personal data of the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque/e-refund payment instructions, where applicable, and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of our Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;

## HOW TO APPLY FOR HONG KONG OFFER SHARES

- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues, etc;
- distributing communications from our Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations;
- disclosing identities of successful applicants by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and our Hong Kong Share Registrar to discharge their obligations to holders of securities and/or regulators and any other purpose to which the holders of securities may from time to time agree.

### **(c) Transfer of personal data**

Personal data held by our Company and our Hong Kong Share Registrar relating to the holders of securities will be kept confidential but our Company and our Hong Kong Share Registrar may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the holders of securities to, from or with any and all of the following persons and entities:

- our Company or its appointed agents such as financial advisers, receiving bankers and our Company's overseas principal share registrar;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);
- any agent, contractor or third-party service provider who offer administrative, telecommunications, computer, payment or other services to our Company and/or our Hong Kong Share Registrar in connection with the operation of their respective businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies in Hong Kong or elsewhere; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers, etc.

## HOW TO APPLY FOR HONG KONG OFFER SHARES

### **(d) Access to and correction of personal data**

The Ordinance provides the holders of securities with rights to ascertain whether our Company or our Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, our Company and our Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and the kinds of data held should be addressed to our Company for the attention of our Company secretary or (as the case may be) our Hong Kong Share Registrar for the attention of the Privacy Compliance Officer for the purposes of the Ordinance.



18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

3 September 2010

**The Directors**

**China Sanjiang Fine Chemicals Company Limited**

**BOCOM International (Asia) Limited**

**Daiwa Capital Markets Hong Kong Limited**

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of China Sanjiang Fine Chemicals Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2007, 2008, 2009 and the four-month period ended 30 April 2010 (the “Relevant Periods”) and the four-month period ended 30 April 2009 (the “30 April 2009 Financial Information”), prepared on the basis of presentation set forth in note 2 of Section II, for inclusion in the prospectus of the Company dated 3 September 2010 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 30 January 2009. Pursuant to a group reorganisation (“the Reorganisation”) as detailed in note 2 of Section II below which was completed on 1 April 2010, the Company became the holding company of the subsidiaries now comprising the Group. Particulars of the Company and its subsidiaries are set out in note 1 of Section II below. The Company and its subsidiaries have adopted 31 December as their financial year end. The Group is principally engaged in manufacture and supply of ethylene oxide (“EO”) and surfactants, both of which are core chemical components for the production of household and industrial detergent products. The subsidiaries are also involved in the provision of processing service for surfactants to their customers and the production and supply of other chemical products such as ethylene glycol, polymer grade ethylene and industrial gases, namely oxygen, nitrogen and argon in the People’s Republic of China (“PRC or Mainland China”).

As of the date of this report, no audited statutory financial statements have been prepared by the Company as the Company is newly incorporated and has not involved in any significant business transactions since the date of incorporation other than the Reorganisation. The audited statutory financial statements of the Company’s subsidiaries established in Mainland China were prepared in accordance with the relevant accounting principles and financial reporting regulations issued by the Ministry of Finance of the PRC applicable to the respective companies (the “PRC GAAP”) and were audited by auditors other than Ernst & Young, Certified Public Accountants, Hong Kong, the details of which are set out in note 1 of Section II.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the Group’s consolidated financial statements for the Relevant Periods (the “HKFRS Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs” which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that remain in effect.

The Financial Information set out in this report including the consolidated statements of income, comprehensive income, changes in equity and cash flows of the Group for each of the Relevant Periods, the consolidated statements of financial position of the Group as at 31 December 2007, 2008, 2009 and 30 April 2010 and the statements of financial position of the Company as at 31 December 2009 and 30 April 2010 together with a summary of significant accounting policies and other explanatory notes thereto has been prepared by the Directors based on the HKFRS Financial Statements with no adjustments made thereon and on the basis set out in note 2 of Section II.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS**

The Directors are responsible for the contents of the Prospectus, including the preparation and the true and fair presentation of the Financial Information in accordance with HKFRSs, the basis set out in note 2 of section II and the disclosure requirements of the Hong Kong Companies Ordinance. The directors of the respective companies of the Group are responsible for the preparation and the true and fair presentation of the respective financial statements and where appropriate management accounts in accordance with the relevant accounting principles and financial reporting regulations applicable to these companies. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the respective financial statements and management accounts and the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information for the Relevant Periods and a review conclusion based on our review on the 30 April 2009 Financial Information and to report our opinion and review conclusion respectively to you.

### **PROCEDURES PERFORMED IN RESPECT OF THE FINANCIAL INFORMATION**

We have audited the HKFRS Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, we have examined the Financial Information, and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

### **PROCEDURES PERFORMED IN RESPECT OF THE 30 APRIL 2009 FINANCIAL INFORMATION**

For the purpose of this report, we have also performed a review of the 30 April 2009 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of interim financial information consists principally of making enquiries of management and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit and provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 April 2009 Financial Information.

**OPINION IN RESPECT OF THE FINANCIAL INFORMATION**

In our opinion, the Financial Information for the Relevant Periods gives, for the purposes of this report and on the basis of presentation set out in note 2 of Section II, a true and fair view of the state of affairs of the Group as at 31 December 2007, 2008, 2009 and 30 April 2010, and that of the Company as at 31 December 2009 and 30 April 2010, and of the Group's consolidated results and cash flows for each of the Relevant Periods.

**REVIEW CONCLUSION IN RESPECT OF THE 30 APRIL 2009 FINANCIAL INFORMATION**

Based on our review, which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 30 April 2009 Financial Information prepared on the basis set out in note 2 of section II does not give a true and fair view of the consolidated results and cash flows of the Group for the four-month period ended 30 April 2009.

## I. FINANCIAL INFORMATION

## Consolidated statements of income

		Year ended 31 December			Four months ended	
		2007	2008	2009	2009	2010
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
REVENUE	6	876,774	952,847	1,285,533	368,423	567,483
Cost of sales		(667,343)	(728,345)	(929,212)	(244,725)	(455,365)
Gross profit		209,431	224,502	356,321	123,698	112,118
Other income and gains	6	20,200	29,401	21,204	1,540	4,526
Selling and distribution cost		(757)	(3,005)	(2,966)	(739)	(523)
Administrative expenses		(22,696)	(30,827)	(37,473)	(9,420)	(10,774)
Other expenses		(1,291)	(2,000)	(336)	(70)	(370)
Finance costs	7	(34,360)	(36,736)	(32,915)	(12,673)	(5,898)
PROFIT BEFORE TAX	8	170,527	181,335	303,835	102,336	99,079
Income tax expense	11	(839)	(19,500)	(43,673)	(15,765)	(20,383)
PROFIT FOR THE YEAR/PERIOD		<u>169,688</u>	<u>161,835</u>	<u>260,162</u>	<u>86,571</u>	<u>78,696</u>
Attributable to:						
Equity holders of the parent		147,358	139,081	242,075	81,525	78,668
Non-controlling interests		<u>22,330</u>	<u>22,754</u>	<u>18,087</u>	<u>5,046</u>	<u>28</u>
		<u>169,688</u>	<u>161,835</u>	<u>260,162</u>	<u>86,571</u>	<u>78,696</u>
Earnings per share attributable to equity holders of the parent	12	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

## Consolidated statements of comprehensive income

	Year ended 31 December			Four months ended 30 April	
	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2009 <i>RMB'000</i> (Unaudited)	2010 <i>RMB'000</i>
PROFIT FOR THE YEAR/PERIOD	<u>169,688</u>	<u>161,835</u>	<u>260,162</u>	<u>86,571</u>	<u>78,696</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX	<u>169,688</u>	<u>161,835</u>	<u>260,162</u>	<u>86,571</u>	<u>78,696</u>
Attributable to:					
Equity holders of the parent	147,358	139,081	242,075	81,525	78,668
Non-controlling interests	<u>22,330</u>	<u>22,754</u>	<u>18,087</u>	<u>5,046</u>	<u>28</u>
	<u>169,688</u>	<u>161,835</u>	<u>260,162</u>	<u>86,571</u>	<u>78,696</u>

## Consolidated statements of financial position

		As at 31 December			As at
		2007	2008	2009	30 April
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	703,757	895,821	897,322	877,782
Prepaid land lease payments	14	32,545	31,753	48,539	46,130
Intangible assets	15	25,131	22,582	19,654	18,632
Advance payments for property, plant and equipment		92,121	83,327	53,941	113,960
Deferred tax assets	24	2,671	1,207	627	431
Total non-current assets		<u>856,225</u>	<u>1,034,690</u>	<u>1,020,083</u>	<u>1,056,935</u>
CURRENT ASSETS					
Inventories	17	94,788	77,080	67,717	115,227
Trade and notes receivables	18	56,841	45,453	38,763	88,513
Prepayments, deposits and other receivables	19	103,111	62,837	22,260	24,875
Due from directors	31	14,858	16,539	–	–
Due from related parties	31	112,819	240,244	142,403	–
Pledged deposits	20	214,924	229,592	236,547	343,942
Cash and cash equivalents	20	115,321	65,365	109,205	143,919
Total current assets		<u>712,662</u>	<u>737,110</u>	<u>616,895</u>	<u>716,476</u>
CURRENT LIABILITIES					
Trade and bills payables	21	379,568	286,421	254,083	300,506
Other payables and accruals	22	180,672	152,037	136,764	91,264
Interest-bearing bank borrowings	23	568,287	647,963	629,986	682,809
Due to directors	31	121,454	124,580	1,564	80
Due to related parties	31	3,938	8,988	5,878	3,725
Due to the parent and ultimate holding company	31	–	–	68,282	136,525
Dividends payable		12,070	56,956	172,036	113,659
Tax payable		1,256	3,504	11,865	14,908
Total current liabilities		<u>1,267,245</u>	<u>1,280,449</u>	<u>1,280,458</u>	<u>1,343,476</u>
NET CURRENT LIABILITIES		<u>(554,583)</u>	<u>(543,339)</u>	<u>(663,563)</u>	<u>(627,000)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>301,642</u>	<u>491,351</u>	<u>356,520</u>	<u>429,935</u>

		As at 31 December			As at
		2007	2008	2009	30 April
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES					
Interest-bearing bank borrowings	23	80,000	139,000	89,500	106,322
Deferred tax liabilities	24	<u>341</u>	<u>14,110</u>	<u>32,822</u>	<u>40,594</u>
Total non-current liabilities		<u>80,341</u>	<u>153,110</u>	<u>122,322</u>	<u>146,916</u>
Net assets		<u>221,301</u>	<u>338,241</u>	<u>234,198</u>	<u>283,019</u>
EQUITY					
Equity attributable to equity holders of the parent					
Share capital	25	–	–	901	901
Reserves	26	51,877	66,059	(51,379)	(34,610)
Retained profits		<u>142,252</u>	<u>235,791</u>	<u>284,838</u>	<u>314,849</u>
		<u>194,129</u>	<u>301,850</u>	<u>234,360</u>	<u>281,140</u>
Non-controlling interests		<u>27,172</u>	<u>36,391</u>	<u>(162)</u>	<u>1,879</u>
Total equity		<u>221,301</u>	<u>338,241</u>	<u>234,198</u>	<u>283,019</u>

## Consolidated statements of changes in equity

	Attributable to equity holders of the parent					Total	Non-controlling interests	Total equity
	Share capital	Statutory surplus reserves*	Share premium*	Merger reserve*	Retained profits			
	RMB'000	RMB'000 (note 26)	RMB'000 (note 26)	RMB'000 (note 26)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	–	2,559	–	20,857	7,723	31,139	17,437	48,576
Profit for the year	–	–	–	–	147,358	147,358	22,330	169,688
Total comprehensive income for the year	–	–	–	–	147,358	147,358	22,330	169,688
Capital contribution	–	–	–	15,632	–	15,632	5,325	20,957
Dividends declared to non-controlling interest	–	–	–	–	–	–	(17,920)	(17,920)
Appropriation to statutory surplus reserve	–	12,829	–	–	(12,829)	–	–	–
At 31 December 2007 and 1 January 2008	–	15,388	–	36,489	142,252	194,129	27,172	221,301
Profit for the year	–	–	–	–	139,081	139,081	22,754	161,835
Total comprehensive income for the year	–	–	–	–	139,081	139,081	22,754	161,835
Dividends declared to non-controlling interest	–	–	–	–	–	–	(13,535)	(13,535)
Dividends declared to the parent and ultimate shareholders	–	–	–	–	(31,360)	(31,360)	–	(31,360)
Appropriation to statutory surplus reserve	–	14,182	–	–	(14,182)	–	–	–
At 31 December 2008 and 1 January 2009	–	29,570	–	36,489	235,791	301,850	36,391	338,241
Profit for the year	–	–	–	–	242,075	242,075	18,087	260,162
Total comprehensive income for the year	–	–	–	–	242,075	242,075	18,087	260,162
Issue of share capital for the year pursuant to the Group Reorganisation and for cash (note 25)	901	–	68,228	–	–	69,129	–	69,129
Acquisition of subsidiaries pursuant to share swap as part of the Group Reorganisation	–	–	425,706	(425,706)	–	–	–	–
Acquisition of subsidiaries pursuant to the Group Reorganisation	–	–	–	(104,994)	–	(104,994)	–	(104,994)
Acquisition of non-controlling interest	–	–	–	–	–	–	(15,688)	(15,688)
Deemed distribution to equity holders	–	–	–	(107,433)	–	(107,433)	–	(107,433)
Dividends declared to non-controlling interest	–	–	–	–	–	–	(38,952)	(38,952)
Dividends declared to the parent and ultimate holding company	–	–	–	–	(166,267)	(166,267)	–	(166,267)
Appropriation to statutory surplus reserve	–	26,761	–	–	(26,761)	–	–	–

	Attributable to equity holders of the parent						Non-controlling interests	Total equity
	Share capital	Statutory surplus reserves*	Share premium*	Merger reserve*	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2009 and 1 January 2010	901	56,331	493,934	(601,644)	284,838	234,360	(162)	234,198
Profit for the period	—	—	—	—	78,668	78,668	28	78,696
Total comprehensive income for the period	—	—	—	—	78,668	78,668	28	78,696
Deemed distribution to equity holders	—	—	—	8,052**	—	8,052	2,013	10,065
Dividends declared to ultimate holding company	—	—	—	—	(39,940)	(39,940)	—	(39,940)
Appropriation to statutory surplus reserve	—	8,717	—	—	(8,717)	—	—	—
At 30 April 2010	901	65,048	493,934	(593,592)	314,849	281,140	1,879	283,019

\* These reserve accounts comprise the consolidated reserves of RMB51,877,000, RMB66,059,000, RMB(51,379,000) and RMB(34,610,000) in the consolidated statements of financial position as at 31 December 2007, 2008 and 2009 and 30 April 2010, respectively.

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

## Consolidated statements of cash flows

		Year ended 31 December			Four months ended	
		2007	2008	2009	2009	2010
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Profit before tax		170,527	181,335	303,835	102,336	99,079
Adjustments for:						
Finance costs	7	34,360	36,736	32,915	12,673	5,898
Bank interest income	6	(5,796)	(6,923)	(7,573)	(1,333)	(1,989)
Foreign exchange differences, net	6	(12,418)	(18,185)	(942)	(2)	672
Depreciation	8	36,299	48,006	76,805	23,990	23,155
Loss on disposals of items of property, plant and equipment	8	–	349	7	–	20
Recognition of prepaid land lease payments	8	760	792	920	266	377
Amortisation of intangible assets	8	2,967	2,971	3,020	991	1,022
Write-down of inventories to net realisable value	8	–	–	94	–	–
Impairment of other receivables	8	–	40	36	36	–
		<u>226,699</u>	<u>245,121</u>	<u>409,117</u>	<u>138,957</u>	<u>128,234</u>
Increase in development property	27	–	–	(145,628)	–	–
(Increase)/decrease in inventories		(34,845)	17,708	9,269	27,326	(47,510)
(Increase)/decrease in trade and notes receivables		(14,142)	11,388	6,690	(25,939)	(49,750)
(Increase)/decrease in prepayments, deposits and other receivables		47,051	40,234	40,129	(52,097)	(2,737)
(Increase)/decrease in amounts due from directors		(7,570)	(1,681)	16,539	(1,571)	–
(Increase)/decrease in amounts due from related parties		(97,974)	(127,425)	(9,592)	6,042	102,910
Increase/(decrease) in trade and bills payables		34,956	(93,147)	(32,338)	224,959	40,663
Increase/(decrease) in other payables and accruals		61,032	(28,635)	(23,316)	14,673	(35,502)
Increase/(decrease) in amounts due to directors		23,706	3,126	(123,016)	(23,695)	(1,484)
Increase/(decrease) in amounts due to related parties		(9,762)	5,041	94,589	23,147	62,200
Increase in amounts due to the parent and ultimate holding company		<u>–</u>	<u>–</u>	<u>68,282</u>	<u>–</u>	<u>68,243</u>
Cash generated from operations		229,151	71,730	310,725	331,802	265,267
Income tax paid		<u>(7,237)</u>	<u>(2,019)</u>	<u>(16,020)</u>	<u>(4,162)</u>	<u>(9,372)</u>
Net cash flows from operating activities		<u>221,914</u>	<u>69,711</u>	<u>294,705</u>	<u>327,640</u>	<u>255,895</u>

		Year ended 31 December			Four months ended	
		2007	2008	2009	2009	2010
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of items of property, plant and equipment		(280,873)	(215,976)	(48,975)	(7,336)	(71,479)
Additions to prepaid land lease payments		–	–	(18,067)	–	–
Additions to intangible assets		(12)	(422)	(92)	–	–
Acquisition of businesses pursuant to the Group Reorganisation		–	–	–	–	(4,900)
Proceeds from disposals of items of property, plant and equipment		231	1,050	–	7	84
Proceeds from disposal of a subsidiary	27	–	–	47,641	–	–
Interest received		5,796	6,923	7,573	1,333	1,989
Increase in pledged deposits		(36,743)	(14,668)	(6,955)	(6,955)	(107,395)
Net cash used in investing activities		<u>(311,601)</u>	<u>(223,093)</u>	<u>(18,875)</u>	<u>(12,951)</u>	<u>(181,701)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
New bank loans		628,287	706,963	637,916	110,000	450,560
Repayment of bank loans		(502,000)	(568,287)	(705,393)	(304,361)	(380,915)
Proceeds from capital injection		–	–	68,281	–	–
Capital contributed by non-controlling shareholders		20,957	–	–	–	–
Acquisition of subsidiaries pursuant to the Group Reorganisation		–	–	(110,673)	–	(9,998)
Interest paid		(40,282)	(53,435)	(32,915)	(12,673)	(5,898)
Dividend paid to the parent and ultimate holding company		–	–	(31,360)	–	(92,548)
Dividend paid to non-controlling shareholders		(5,850)	–	(58,788)	–	(9)
Net cash flows from/(used in) financing activities		<u>101,112</u>	<u>85,241</u>	<u>(232,932)</u>	<u>(207,034)</u>	<u>(38,808)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>						
		11,425	(68,141)	42,898	107,655	35,386
Cash and cash equivalents at beginning of year		91,478	115,321	65,365	65,365	109,205
Effect of foreign exchange rate changes, net		<u>12,418</u>	<u>18,185</u>	<u>942</u>	<u>2</u>	<u>(672)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>	20	<u><u>115,321</u></u>	<u><u>65,365</u></u>	<u><u>109,205</u></u>	<u><u>173,022</u></u>	<u><u>143,919</u></u>

## Company's statements of financial position

		As at 31 December 2009 RMB'000	As at 30 April 2010 RMB'000
	Notes		
NON-CURRENT ASSETS			
Investments in subsidiaries, at cost	16	426,588	426,588
Total non-current assets		426,588	426,588
CURRENT ASSETS			
Prepayments, deposits and other receivables	19	1,844	–
Due from a subsidiary	31	301,806	317,423
Cash and cash equivalents		28	212
Total current assets		303,678	317,635
CURRENT LIABILITIES			
Due to directors		9	–
Due to a subsidiary	31	873	–
Due to the parent and ultimate holding company	31	68,282	136,525
Dividends payable		166,267	113,659
Total current liabilities		235,431	250,184
NET CURRENT ASSETS		68,247	67,451
TOTAL ASSETS LESS CURRENT LIABILITIES		494,835	494,039
EQUITY			
Share capital	25	901	901
Reserves	26	493,934	493,934
Loss		–	(18)
Total equity		494,835	494,039

## II. NOTES TO THE FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION AND THE REORGANISATION

The Company was incorporated with limited liability in Cayman Islands on 30 January 2009. The registered office of the Company is located at P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.

The Company is an investment holding company. The Company's subsidiaries are involved in the manufacture and supply of EO and surfactants, both of which are core chemical components for the production of household and industrial detergent products. The subsidiaries also involve in the provision of processing service for surfactants to its customers and the production and supply of other chemical products such as ethylene glycol, polymer grade ethylene and industrial gases, namely oxygen, nitrogen and argon (the "Listing Business") in the PRC.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the section headed "Group Reorganisation" in Appendix VII "Statutory and General Information" of the Prospectus.

As at the end of Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Capitol International Limited ("Capitol International") (i)	Hong Kong 18 July 2003	HK\$1,000,000	100% (direct)	Investment holding
Sanjiang Chemical Co., Limited ("Sanjiang Chemical") (ii)	People's Republic of China 9 December 2003	US\$22,225,000	100% (indirect)	Manufacture and sale of EO, surfactants, ethylene glycol polymer grade ethylene, industrial gases and provision of surfactant processing service
Jiaxing Yongming Petrochemical Co., Limited ("Yongming Petrochemical") (iii)	People's Republic of China 9 December 2003	US\$22,800,000	100% (indirect)	Manufacture and sale of EO, surfactants, ethylene glycol, polymer grade ethylene, industrial gases and provision of surfactant processing service
Jiaxing Port Area Industrial Park Guanlang Co., Limited ("Guanlang") (iv)	People's Republic of China 29 September 2005	RMB13,000,000	83.85% (indirect)	Construction and management of pipe network at Jiaxing Port Chemical Industrial Park
Sanjiang Trading Co., Limited ("Sanjiang Trading") (v)	People's Republic of China 29 October 2004	RMB5,000,000	100% (indirect)	Trading of ethylene, EO and other chemical products
Hangzhou Textile Auxiliaries Co., Limited ("Hangzhou Sanjiang") (vi)	People's Republic of China 1 April 2010	RMB5,000,000	100% (indirect)	Manufacture and sale of alcohol ethoxylate nonylphenols and textile auxiliaries

- (i) The statutory audited financial statements for the years ended 31 December 2007, 2008, 2009 prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance were audited by Jacky Chan CPA Limited Certified Public Accountants registered in the Hong Kong.
- (ii) The statutory audited financial statements for the years ended 31 December 2007, 2008 and 2009 prepared in accordance with the PRC GAAP were audited by Jiaxing Xinlian Certified Public Accountants registered in the PRC.
- (iii) The statutory audited financial statements for the year ended 31 December 2007 prepared in accordance with the PRC GAAP were audited by Zhejiang Puhua Certified Public Accountants registered in the PRC. The statutory audited financial statements for the years ended 31 December 2008 and 2009 prepared in accordance with the PRC GAAP were audited by Jiaxing Xinlian Certified Public Accountants registered in the PRC.
- (iv) The statutory audited financial statements for the years ended 31 December 2007, 2008 and 2009 prepared in accordance with the PRC GAAP were audited by Jiaxing Changxing Certified Public Accountants registered in the PRC.
- (v) The statutory audited financial statements for the year ended 31 December 2007 prepared in accordance with the PRC GAAP were audited by Zhejiang Puhua Certified Public Accountants registered in the PRC. The statutory audited financial statements for the years ended 31 December 2008, and 2009 prepared in accordance with the PRC GAAP were audited by Jiaxing Xinlian Certified Public Accountants registered in the PRC.
- (vi) No statutory audited financial statements had been issued subsequent to its incorporation on 1 April 2010.

## 2. BASIS OF PRESENTATION

Pursuant to 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, which was the then holding company of the other subsidiaries comprising the Group. Since Guan Jianzhong and Han Jianhong (spouse of Guan Jianzhong) controlled the Group before and after the Reorganisation, the Reorganisation is accounted for as reorganisation under common control using the principles of merger accounting in accordance with the Accounting Guidance 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA.

As part of the Reorganisation, on 1 April 2010, the Group acquired the EO trading and surfactant manufacture and sales businesses (the “Acquired Businesses”) from Hangzhou Haoming Investment Co., Limited (formerly known as Hangzhou Xiaoshan Sanjiang Fine Chemical Co., Limited and Xiaoshan City Sanjiang Fine Chemicals Co., Limited (“Hangzhou Haoming”)), (the “Hangzhou Haoming Businesses Acquisition”). Under the terms of the agreements, the Group acquired the production facilities, inventories, and other assets and liabilities related to the Acquired Businesses (the “Net Assets Acquired”). The land use right, buildings and motor vehicles related to the Acquired Businesses (the “Assets Retained”) and other assets and liabilities unrelated to the Acquired Businesses have been retained by Hangzhou Haoming. The Financial Information combined the Net Assets Acquired, the Assets Retained and the results of operations relating to the Acquired Businesses using merger accounting because the Acquired Businesses of Hangzhou Haoming are under the common control and management of Guan Jianzhong and Han Jianhong before and after the Reorganisation. At the acquisition date, the Assets Retained have been reflected as a distribution to the ultimate shareholder in the consolidated statement of changes in equity and leased by the Group.

The Financial Information includes the consolidated statements of income, comprehensive income, changes in equity, cash flows and financial position of the companies now comprising the Group, as if the current group structure resulted from the Reorganisation had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, whichever is a shorter period. All significant intra-group transactions and balances have been eliminated on consolidation.

### 3.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with 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 and the disclosure requirement of the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised HKFRSs that are effective for the Group's annual periods beginning on or after 1 January 2007. For the purpose of preparing the Financial Information, the Group has adopted all these new and revised HKFRSs consistently throughout the Relevant Periods except for those new and revised HKFRSs that are not yet effective for any of the Relevant Periods as further explained in note 3.2 below.

The Financial Information has been prepared under the historical cost convention. The accounting policies set out in note 3.3 have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

#### Going concern assumption

As at 30 April 2010, the Group's net current liabilities amounted to approximately RMB627 million, which comprised current assets of approximately RMB716 million and current liabilities of approximately RMB1,343 million. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the financial statements, the Directors of the Company have considered the Group's sources of liquidity and believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

### 3.2 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 the Financial Information.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> (issued in February 2010) <sup>2</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>
HKAS 24 (Revised)	<i>Related Party Disclosures</i> <sup>3</sup>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> <sup>1</sup>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC) – Int 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>

Apart from the above, the HKICPA has issued the third batch of Improvements to HKFRSs in May 2010. Except for the amendments to HKFRS 3 and HKAS 27 which are effective for annual periods beginning on or after 1 July 2010, 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.

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKFRS 9 may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

### 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of consolidation**

The Financial Information comprises the financial statements of the Company and its subsidiaries for each of the three years ended 31 December 2007, 2008 and 2009 and the four months ended 30 April 2010.

Acquisitions under common control which is treated as business combination under common control are accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The consolidated statements of income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

#### **Subsidiaries**

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

The results of subsidiaries are included in the Company's statement of income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

#### **Impairment of non-financial assets other than goodwill**

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

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

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

**Related parties**

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statements of income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

**Intangible assets**

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

*Software*

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

*Technology use rights*

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

**Operating leases**

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

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

**Investments and other financial assets***Initial recognition and measurements*

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances and trade and other receivables.

*Subsequent measurement*

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in

the statement of income. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

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

#### Loans and receivables

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

#### Impairment of financial assets

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

#### *Financial assets carried at amortised cost*

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

If there is objective evidence that an impairment loss has been incurred, the 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

**Derecognition of financial assets**

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

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

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

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

**Financial liabilities**

Financial liabilities including trade, bills and other payables, amounts due to directors and related parties, financial guarantee contracts and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within “finance costs” in the consolidated statements of income.

Gains and losses are recognised in the consolidated statements of income when the liabilities are derecognised as well as through the amortisation process.

*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.

**Derecognition of financial liabilities**

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

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

**Offsetting of financial instruments**

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

**Inventories**

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

**Cash and cash equivalents**

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

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

**Income tax**

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

#### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statements of income over the expected useful life of the relevant asset by equal annual installments.

#### **Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from rendering of processing service is recognised when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

#### **Retirement benefits**

The Group's subsidiaries which operate in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The pension scheme is considered as defined contribution plan because the Group has no legal or constructive obligations for retirement benefits beyond the contribution made. Contributions to the defined contribution pension scheme are recognised as expenses in the statement of income as incurred.

#### **Borrowing costs**

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

#### **Dividends**

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

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

**Foreign currencies**

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of reporting period. All differences are taken to the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

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

**Estimation uncertainty**

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

*Impairment of non-financial assets other than goodwill*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. 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 an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

*Deferred tax assets*

Deferred tax assets are recognised for pre-operating expense and other temporary differences to the extent that it is probable that taxable profit will be available against which the temporary tax differences can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on deferred tax assets are disclosed in note 24 to the Financial Information.

*Income tax*

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised. Further details are disclosed in note 11 to the Financial Information.

*Impairment of trade and other receivables*

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

*Useful lives and residual values of property, plant and equipment*

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

**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 and performance assessment.

**Entity-wide disclosures***Information about products*

The following table sets forth the total revenue from external customers by products during the Relevant Periods and the four months ended 30 April 2009:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
EO	795,174	829,274	925,110	231,674	472,013
Surfactants	30,893	46,783	216,585	67,133	63,070
Other chemical products	44,709	64,480	74,969	14,552	26,142
Processing services	3,378	9,659	66,395	54,202	5,181
Others	2,620	2,651	2,474	862	1,077
	<u>876,774</u>	<u>952,847</u>	<u>1,285,533</u>	<u>368,423</u>	<u>567,483</u>

*Geographical information*

All external revenue of the Group during each of the Relevant Periods and the four months ended 30 April 2009 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.

*Information about a major customer*

For the four months ended 30 April 2010, revenue of approximately RMB110,811,000 which accounted for 20% of the Group's total revenue (2007: RMB336,574,000, 38%; 2008: RMB182,851,000, 19%, 2009: RMB237,831,000, 19%, four months ended 30 April 2009: RMB231,674,000, 63%) was derived from sales to a single customer.

## 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:

	Year ended 31 December			Four months ended	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<b>Revenue</b>					
Sales of goods	870,776	940,537	1,216,664	313,359	561,225
Provision of services	3,378	9,659	66,395	54,202	5,181
Others	2,620	2,651	2,474	862	1,077
	<u>876,774</u>	<u>952,847</u>	<u>1,285,533</u>	<u>368,423</u>	<u>567,483</u>
<b>Other income and gains</b>					
Bank interest income	5,796	6,923	7,573	1,333	1,989
Government subsidies*	1,592	3,477	10,155	96	53
Foreign exchange gains/(loss), net	12,418	18,185	942	2	(672)
Other lease income	182	45	403	—	2,272
Others	212	771	2,131	109	884
	<u>20,200</u>	<u>29,401</u>	<u>21,204</u>	<u>1,540</u>	<u>4,526</u>

\* Government subsidies mainly represented incentive provided by local government for the Group to operate in Jiaying, 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:

	Year ended 31 December			Four months ended	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on bank loans wholly repayable within five years	40,282	53,435	32,915	12,673	5,898
Less: Amount capitalised in construction in progress	(5,922)	(16,699)	—	—	—
	<u>34,360</u>	<u>36,736</u>	<u>32,915</u>	<u>12,673</u>	<u>5,898</u>

**8. PROFIT BEFORE TAX**

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

	<i>Notes</i>	Year ended 31 December			Four months ended 30 April	
		2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2009 <i>RMB'000</i> (Unaudited)	2010 <i>RMB'000</i>
Cost of inventories sold		665,976	726,698	927,554	244,159	454,819
Others		1,367	1,647	1,658	566	546
		<u>667,343</u>	<u>728,345</u>	<u>929,212</u>	<u>244,725</u>	<u>455,365</u>
Depreciation	13	36,299	48,006	76,805	23,990	23,155
Recognition of prepaid land lease payments	14	760	792	920	266	377
Amortisation of intangible assets	15	2,967	2,971	3,020	991	1,022
Loss on disposal of property, plant and equipment		–	349	7	–	20
Write-down of inventories to net realisable value		–	–	94	–	–
Impairment of other receivables		–	40	36	36	–
		<u>–</u>	<u>40</u>	<u>36</u>	<u>36</u>	<u>–</u>
Employee benefit's expense (including directors' remuneration ( <i>note 9</i> )):						
Wages and salaries		10,080	10,654	19,135	6,227	6,715
Pension scheme contribution		1,237	1,091	1,145	348	259
Staff welfare expenses		2,181	2,909	2,630	370	455
		<u>13,498</u>	<u>14,654</u>	<u>22,910</u>	<u>6,945</u>	<u>7,429</u>

**9. DIRECTORS' REMUNERATION**

Details of directors' remuneration during the Relevant Periods and the four months ended 30 April 2009 are as follows:

	Year ended 31 December			Four months ended 30 April	
	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2009 <i>RMB'000</i> (Unaudited)	2010 <i>RMB'000</i>
Salaries, allowances and benefits in kind	494	925	1,363	303	506
Pension scheme contributions	14	12	13	4	6
	<u>508</u>	<u>937</u>	<u>1,376</u>	<u>307</u>	<u>512</u>

	<b>Fees</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Bonus</b>	<b>Pension scheme contributions</b>	<b>Total remuneration</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2007					
Executive directors:					
Guan Jianzhong	–	330	–	8	338
Han Jianhong	–	22	–	2	24
Niu Yingshan	–	120	–	2	122
Han Jianping	–	22	–	2	24
Independent non-executive directors:					
Wang Wanxu	–	–	–	–	–
Shen Kaijun	–	–	–	–	–
Li Zhihong	–	–	–	–	–
	<u>–</u>	<u>494</u>	<u>–</u>	<u>14</u>	<u>508</u>
Year ended 31 December 2008					
Executive directors:					
Guan Jianzhong	–	285	–	6	291
Han Jianhong	–	385	–	2	387
Niu Yingshan	–	205	–	2	207
Han Jianping	–	50	–	2	52
Independent non-executive directors:					
Wang Wanxu	–	–	–	–	–
Shen Kaijun	–	–	–	–	–
Li Zhihong	–	–	–	–	–
	<u>–</u>	<u>925</u>	<u>–</u>	<u>12</u>	<u>937</u>
Year ended 31 December 2009					
Executive directors:					
Guan Jianzhong	–	444	–	5	449
Han Jianhong	–	488	–	4	492
Niu Yingshan	–	326	–	2	328
Han Jianping	–	105	–	2	107
Independent non-executive directors:					
Wang Wanxu	–	–	–	–	–
Shen Kaijun	–	–	–	–	–
Li Zhihong	–	–	–	–	–
	<u>–</u>	<u>1,363</u>	<u>–</u>	<u>13</u>	<u>1,376</u>

	<b>Fees</b>	<b>Salaries, allowances and benefits in kind</b>	<b>Bonus</b>	<b>Pension scheme contributions</b>	<b>Total remuneration</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Four months ended 30 April 2010					
Executive directors:					
Guan Jianzhong	–	173	–	2	175
Han Jianhong	–	171	–	2	173
Niu Yingshan	–	114	–	1	115
Han Jianping	–	48	–	1	49
Independent non-executive directors:					
Wang Wanxu	–	–	–	–	–
Shen Kaijun	–	–	–	–	–
Li Zhihong	–	–	–	–	–
	<u>–</u>	<u>506</u>	<u>–</u>	<u>6</u>	<u>512</u>
Four months ended 30 April 2009 (Unaudited)					
Executive directors:					
Guan Jianzhong	–	88	–	1	89
Han Jianhong	–	104	–	1	105
Niu Yingshan	–	94	–	1	95
Han Jianping	–	17	–	1	18
Independent non-executive directors:					
Wang Wanxu	–	–	–	–	–
Shen Kaijun	–	–	–	–	–
Li Zhihong	–	–	–	–	–
	<u>–</u>	<u>303</u>	<u>–</u>	<u>4</u>	<u>307</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods and the four months ended 30 April 2009.

**10. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees included one director for the year ended 31 December 2007, three directors for the years ended 31 December 2008 and 2009 and for the four months ended 30 April 2009, and four directors for the four months ended 30 April 2010, whose remuneration details are set out in note 9 above. Details of the remuneration of the remaining highest paid employees for each of the Relevant Periods and the four months ended 30 April 2009 are as follows:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	781	444	567	177	205
Pension scheme contribution	11	11	10	3	4
	<u>792</u>	<u>455</u>	<u>577</u>	<u>180</u>	<u>209</u>

The remuneration of the highest paid, non-director employees fell within the range of nil to RMB300,000.

**11. 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 Relevant Periods and the four months ended 30 April 2009 are analysed as follows:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current – PRC					
Charge for the year/period	1,323	4,267	24,381	6,472	12,415
Deferred (note 24)	(484)	15,233	19,292	9,293	7,968
	<u>839</u>	<u>19,500</u>	<u>43,673</u>	<u>15,765</u>	<u>20,383</u>

Pursuant to the relevant tax law of Hong Kong Special Administrative Region, Hong Kong profits tax is subject to tax rates of 17.5% for the year ended 31 December 2007 and 16.5% for the years ended 31 December 2008 and 2009 and the four months ended 30 April 2009 and 2010 on the estimated assessable profits arising in Hong Kong during the Relevant Periods and the four months ended 30 April 2009. No provision of income tax has been made as the Group had no taxable income derived from Hong Kong during the Relevant Periods and the four months ended 30 April 2009.

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, Yongming Petrochemical, Sanjiang Trading and 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 33% for the year ended 31 December 2007, and 25% for the years ended 31 December 2008 and 2009 and the four months ended 30 April 2009 and 2010. 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 exempted from CIT for the year ended 31 December 2007 and subject to CIT at a reduced rate of 12.5% for the years ended 31 December 2008 and 2009 and 30 April 2009 and 2010.

Yongming Petrochemical was registered as a foreign-invested enterprise on 9 December 2003 and subject to CIT at the rate of 33% for the year ended 31 December 2007, and 25% for the years ended 31 December 2008 and 2009 and the four months ended 30 April 2009 and 2010. Pursuant to the approval of the tax bureau, Yongming Petrochemical was exempted from CIT for its first two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. In accordance with the Corporate Income Tax Law, a company would be deemed to trigger the tax holiday from 1 January 2008 even if it did not have taxable profits at that time. Although Yongming Petrochemical was under accumulative loss position as of 1 January 2008, its tax holiday was deemed to have started in 2008. Therefore, Yongming Petrochemical was exempted from CIT for the years ended 31 December 2008 and 2009 and is subject to CIT rate of 12.5% for the four months ended 30 April 2009 and 2010.

Guanlang was registered as a domestic-invested enterprise on 29 September 2005 and was subject to CIT at the rate of 33% for the year ended 31 December 2007 and 25% for the years ended 31 December 2008 and 2009 and the four months ended 30 April 2009 and 2010.

Sanjiang Trading was registered as a domestic-invested enterprise on 29 October 2004 and was subject to CIT at a rate of 33% for the year ended 31 December 2007 and 25% for the years ended 31 December 2008 and 2009 and the four months ended 30 April 2009 and 2010.

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 four months ended 30 April 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:

	Year ended 31 December			Four months ended 30 April	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	170,527	181,335	303,835	102,336	99,079
Tax at the statutory tax rates	56,274	45,334	75,959	25,584	24,770
Tax effect of tax concession and allowances	(56,596)	(25,906)	(52,754)	(18,378)	(12,818)
Tax losses not recognised	903	1,596	121	167	109
Expenses not deductible for tax	1,543	1,256	3,152	629	433
Deferred tax benefit previously not recognised	(504)	—	—	184	183
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries (note 24)	—	14,110	18,712	9,096	7,772
Tax credit in respect of purchases of property, plant and equipment from domestic vendors*	—	(16,890)	—	—	—
Tax losses utilised from previous years	(781)	—	(1,517)	(1,517)	(66)
Tax charge at the Group's effective rate	839	19,500	43,673	15,765	20,383

\* The amount represents a tax concession, approved by the Jiaxing City local tax bureau, in respect of the purchase of certain manufacturing plant, machinery and equipment made in Mainland China. The tax concession is calculated at 40% of the purchase consideration of such manufacturing plant, machinery and equipment and the tax concession was fully deducted in 2008.

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

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the number of common shares as at end of each financial year/period is different from the number of common shares immediately after the completion of Global Offering as more fully explained in the section of share capital of the Prospectus.

**13. PROPERTY, PLANT AND EQUIPMENT****Group**

	<b>Buildings</b> <i>RMB'000</i>	<b>Plant and machinery</b> <i>RMB'000</i>	<b>Office equipment</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Construction in progress</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>31 December 2007</b>						
At 1 January 2007:						
Cost	136,654	421,182	1,929	9,002	14,351	583,118
Accumulated depreciation	(6,771)	(30,403)	(525)	(2,141)	–	(39,840)
Net carrying amount	<u>129,883</u>	<u>390,779</u>	<u>1,404</u>	<u>6,861</u>	<u>14,351</u>	<u>543,278</u>
At 1 January 2007:						
Net of accumulated depreciation	129,883	390,779	1,404	6,861	14,351	543,278
Additions	528	785	147	1,398	194,151	197,009
Disposal	–	–	(9)	(222)	–	(231)
Depreciation provided during the year	(6,522)	(28,211)	(328)	(1,238)	–	(36,299)
Transfers	<u>30,234</u>	<u>87,428</u>	<u>36</u>	<u>1,599</u>	<u>(119,297)</u>	<u>–</u>
At 31 December 2007:						
Net of accumulated depreciation and impairment	<u>154,123</u>	<u>450,781</u>	<u>1,250</u>	<u>8,398</u>	<u>89,205</u>	<u>703,757</u>
At 31 December 2007:						
Cost	167,416	489,857	2,103	11,520	89,205	760,101
Accumulated depreciation	<u>(13,293)</u>	<u>(39,076)</u>	<u>(853)</u>	<u>(3,122)</u>	<u>–</u>	<u>(56,344)</u>
Net carrying amount	<u>154,123</u>	<u>450,781</u>	<u>1,250</u>	<u>8,398</u>	<u>89,205</u>	<u>703,757</u>

	<b>Buildings</b> <i>RMB'000</i>	<b>Plant and machinery</b> <i>RMB'000</i>	<b>Office equipment</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Construction in progress</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>31 December 2008</b>						
At 1 January 2008:						
Cost	167,416	489,857	2,103	11,520	89,205	760,101
Accumulated depreciation	(13,293)	(39,076)	(853)	(3,122)	–	(56,344)
Net carrying amount	<u>154,123</u>	<u>450,781</u>	<u>1,250</u>	<u>8,398</u>	<u>89,205</u>	<u>703,757</u>
At 1 January 2008:						
Net of accumulated depreciation	154,123	450,781	1,250	8,398	89,205	703,757
Additions	30	18,953	566	–	221,920	241,469
Disposal	–	(17)	–	(1,382)	–	(1,399)
Depreciation provided during the year	(8,486)	(37,244)	(357)	(1,919)	–	(48,006)
Transfers	11,455	58,977	27	224	(70,683)	–
At 31 December 2008:						
Net of accumulated depreciation and impairment	<u>157,122</u>	<u>491,450</u>	<u>1,486</u>	<u>5,321</u>	<u>240,442</u>	<u>895,821</u>
At 31 December 2008:						
Cost	178,901	560,746	2,671	10,030	240,442	992,790
Accumulated depreciation	(21,779)	(69,296)	(1,185)	(4,709)	–	(96,969)
Net carrying amount	<u>157,122</u>	<u>491,450</u>	<u>1,486</u>	<u>5,321</u>	<u>240,442</u>	<u>895,821</u>

	<b>Buildings</b> <i>RMB'000</i>	<b>Plant and machinery</b> <i>RMB'000</i>	<b>Office equipment</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Construction in progress</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>31 December 2009</b>						
At 1 January 2009:						
Cost	178,901	560,746	2,671	10,030	240,442	992,790
Accumulated depreciation	(21,779)	(69,296)	(1,185)	(4,709)	–	(96,969)
Net carrying amount	<u>157,122</u>	<u>491,450</u>	<u>1,486</u>	<u>5,321</u>	<u>240,442</u>	<u>895,821</u>
At 1 January 2009:						
Net of accumulated depreciation	157,122	491,450	1,486	5,321	240,442	895,821
Additions	–	21	666	728	76,946	78,361
Disposal	–	–	–	(7)	–	(7)
Disposal of a subsidiary (note 27)	–	–	(48)	–	–	(48)
Depreciation provided during the year	(9,485)	(64,914)	(469)	(1,937)	–	(76,805)
Transfers	<u>26,794</u>	<u>256,870</u>	<u>–</u>	<u>921</u>	<u>(284,585)</u>	<u>–</u>
At 31 December 2009:						
Net of accumulated depreciation and impairment	<u>174,431</u>	<u>683,427</u>	<u>1,635</u>	<u>5,026</u>	<u>32,803</u>	<u>897,322</u>
At 31 December 2009:						
Cost	205,695	817,637	3,267	11,536	32,803	1,070,938
Accumulated depreciation	<u>(31,264)</u>	<u>(134,210)</u>	<u>(1,632)</u>	<u>(6,510)</u>	<u>–</u>	<u>(173,616)</u>
Net carrying amount	<u>174,431</u>	<u>683,427</u>	<u>1,635</u>	<u>5,026</u>	<u>32,803</u>	<u>897,322</u>

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>30 April 2010</b>						
At 1 January 2010:						
Cost	205,695	817,637	3,267	11,536	32,803	1,070,938
Accumulated depreciation	(31,264)	(134,210)	(1,632)	(6,510)	–	(173,616)
Net carrying amount	<u>174,431</u>	<u>683,427</u>	<u>1,635</u>	<u>5,026</u>	<u>32,803</u>	<u>897,322</u>
At 1 January 2010:						
Net of accumulated depreciation	174,431	683,427	1,635	5,026	32,803	897,322
Additions	–	62	34	–	11,364	11,460
Disposal	–	–	–	(104)	–	(104)
Deemed distribution to equity holders*	(7,176)	–	–	(565)	–	(7,741)
Depreciation provided during the period	(3,229)	(19,257)	(154)	(515)	–	(23,155)
Transfers	614	–	–	–	(614)	–
At 30 April 2010:						
Net of accumulated depreciation and impairment	<u>164,640</u>	<u>664,232</u>	<u>1,515</u>	<u>3,842</u>	<u>43,553</u>	<u>877,782</u>
At 30 April 2010:						
Cost	197,201	817,699	3,301	7,761	43,553	1,069,515
Accumulated depreciation	(32,561)	(153,467)	(1,786)	(3,919)	–	(191,733)
Net carrying amount	<u>164,640</u>	<u>664,232</u>	<u>1,515</u>	<u>3,842</u>	<u>43,553</u>	<u>877,782</u>

\* It represented the buildings and motor vehicles not acquired by the Group upon the completion of the Reorganisation. The Group has entered into a lease agreement with Hangzhou Haoming and continued to use the land use right and building through operating lease arrangements with lease terms expire in 2016 and 2020 respectively. The average remaining useful life of the equipment located in the land and buildings under operating lease is 5 years which were shorter than the lease period.

As at 31 December 2007, 2008 and 2009 and 30 April 2010, certain of the Group's buildings and plant and machinery with aggregate net carrying values of RMB574,859,000, RMB606,190,000, RMB201,896,000 and RMB107,772,000, respectively, were pledged to secure bank loan facilities granted to the Group (note 23).

As at 30 April 2010, the Group was unable to obtain the building ownership certificates for certain of the Group's buildings with aggregate net carrying values of RMB589,000.

## 14. PREPAID LAND LEASE PAYMENTS

## Group

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Carrying amount at beginning of year	34,084	33,324	32,532	49,679
Additions	–	–	18,067	–
Deemed distribution to equity holders*	–	–	–	(2,154)
Recognised during the year/period	(760)	(792)	(920)	(377)
Carrying amount at end of year/period	33,324	32,532	49,679	47,148
Current portion included in prepayments, deposits and other receivables	(779)	(779)	(1,140)	(1,018)
Non-current portion	32,545	31,753	48,539	46,130

\* It represented the land use right not acquired by the Group upon the completion of the Reorganisation. The Group has entered into a lease agreement with Hangzhou Haoming and continued to use the land use right and building through operating lease arrangements with lease terms expire in 2016 and 2020.

The Group's leasehold land is held under long-term leases and is situated in the PRC.

As at 31 December 2007, 2008 and 2009 and 30 April 2010, certain of the Group's leasehold land with aggregate carrying values of RMB11,128,000, RMB10,884,000, RMB9,411,000 and nil, respectively, were pledged to secure bank loan facilities granted to the Group (note 23).

## 15. INTANGIBLE ASSETS

## Group

	Software	Technology	Others	Total
	RMB'000	use right	RMB'000	RMB'000
		RMB'000		
<b>31 December 2007</b>				
Cost at 1 January 2007, net of accumulated amortisation	114	26,983	989	28,086
Additions	–	12	–	12
Amortisation provided during the year	(25)	(2,875)	(67)	(2,967)
At 31 December 2007	89	24,120	922	25,131
Cost	126	28,760	1,000	29,886
Accumulated amortisation	(37)	(4,640)	(78)	(4,755)
Net carrying amount				
At 31 December 2007	89	24,120	922	25,131

	Software RMB'000	Technology use right RMB'000	Others RMB'000	Total RMB'000
<b>31 December 2008</b>				
Cost at 1 January 2008, net of accumulated amortisation	89	24,120	922	25,131
Additions	22	–	400	422
Amortisation provided during the year	(27)	(2,876)	(68)	(2,971)
At 31 December 2008	<u>84</u>	<u>21,244</u>	<u>1,254</u>	<u>22,582</u>
Cost	148	28,760	1,400	30,308
Accumulated amortisation	<u>(64)</u>	<u>(7,516)</u>	<u>(146)</u>	<u>(7,726)</u>
Net carrying amount				
At 31 December 2008	<u>84</u>	<u>21,244</u>	<u>1,254</u>	<u>22,582</u>
<b>31 December 2009</b>				
Cost at 1 January 2009, net of accumulated amortisation	84	21,244	1,254	22,582
Additions	–	92	–	92
Amortisation provided during the year	(28)	(2,921)	(71)	(3,020)
At 31 December 2009	<u>56</u>	<u>18,415</u>	<u>1,183</u>	<u>19,654</u>
Cost	148	28,852	1,400	30,400
Accumulated amortisation	<u>(92)</u>	<u>(10,437)</u>	<u>(217)</u>	<u>(10,746)</u>
Net carrying amount				
At 31 December 2009	<u>56</u>	<u>18,415</u>	<u>1,183</u>	<u>19,654</u>
<b>30 April 2010</b>				
Cost at 1 January 2010, net of accumulated amortisation	56	18,415	1,183	19,654
Amortisation provided during the period	(9)	(989)	(24)	(1,022)
At 30 April 2010	<u>47</u>	<u>17,426</u>	<u>1,159</u>	<u>18,632</u>
Cost	148	28,852	1,400	30,400
Accumulated amortisation	<u>(101)</u>	<u>(11,426)</u>	<u>(241)</u>	<u>(11,768)</u>
Net carrying amount				
At 30 April 2010	<u>47</u>	<u>17,426</u>	<u>1,159</u>	<u>18,632</u>

## 16. INVESTMENTS IN SUBSIDIARIES

<b>Company</b>	<b>As at 31 December 2009 RMB'000</b>	<b>As at 30 April 2010 RMB'000</b>
Unlisted investments, at cost	426,588	426,588

## 17. INVENTORIES

## Group

	<b>As at 31 December</b>			<b>As at 30 April 2010</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	88,560	58,795	57,773	107,637
Finished goods	6,228	18,285	9,944	7,590
	<u>94,788</u>	<u>77,080</u>	<u>67,717</u>	<u>115,227</u>

## 18. TRADE AND NOTES RECEIVABLES

## Group

	<b>As at 31 December</b>			<b>As at 30 April 2010</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	33,978	20,041	17,827	18,552
Notes receivables	23,838	25,678	21,202	69,961
	<u>57,816</u>	<u>45,719</u>	<u>39,029</u>	<u>88,513</u>
Less: Impairment	(975)	(266)	(266)	–
	<u>56,841</u>	<u>45,453</u>	<u>38,763</u>	<u>88,513</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally 15 to 30 days, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. At 30 April 2010, the Group had certain concentrations of credit risk as 11% (2009: 26%, 2008: 24% and 2007: 32%) and 15% (2009: 36%, 2008: 38% and 2007: 47%) of the Group's trade receivables and notes receivables were due from the Group's largest customer and five largest customers, respectively.

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

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	975	975	266	266
Amount written off as uncollectible	—	(709)	—	(266)
	<u>975</u>	<u>266</u>	<u>266</u>	<u>—</u>

As at 31 December 2007, 2008 and 2009 and 30 April 2010, the provision for individually impaired trade receivables is RMB975,000, RMB266,000, RMB266,000 and nil, with a carrying amount of RMB975,000, RMB266,000, RMB266,000 and nil. 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 and notes receivables of the Group as at the end of the Relevant Periods, based on the invoice date, is as follows:

**Group**

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
1 to 30 days	33,430	10,736	12,947	40,300
31 to 60 days	8,580	3,145	6,691	14,156
61 to 90 days	1,798	7,102	5,032	12,442
91 to 360 days	7,691	22,297	3,537	21,012
Over 360 days	6,317	2,439	10,822	603
	<u>57,816</u>	<u>45,719</u>	<u>39,029</u>	<u>88,513</u>

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

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	42,476	15,138	23,207	87,447
Less than 30 days past due	2,402	3,642	3,449	3
31 to 60 days past due	140	6,719	739	407
61 to 90 days past due	198	5,351	103	—
91 to 360 days past due	6,283	12,430	709	53
Over 360 days	5,342	2,173	10,556	603
	<u>56,841</u>	<u>45,453</u>	<u>38,763</u>	<u>88,513</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 only one 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.

#### 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

##### Group

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Other receivables	93,442	56,988	11,402	6,997
Prepayments	9,611	5,831	10,515	17,041
Prepaid land lease payments (note 14)	779	779	1,140	1,018
	<u>103,832</u>	<u>63,598</u>	<u>23,057</u>	<u>25,056</u>
Less: Impairment	<u>(721)</u>	<u>(761)</u>	<u>(797)</u>	<u>(181)</u>
	<u>103,111</u>	<u>62,837</u>	<u>22,260</u>	<u>24,875</u>

Other receivables are non-interest bearing, unsecured and repayable on demand. The individually impaired prepayments relate to suppliers from whom the purchased materials were not received. Except for the impairment of prepayments mentioned above, none of the other above assets is either past due or impaired.

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

##### Company

	As at	As at
	31 December	30 April
	2009	2010
	RMB'000	RMB'000
Other receivables	<u>1,844</u>	<u>–</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The movements in provision for impairment of prepayments are as follows:

**Group**

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	1,217	721	761	797
Impairment losses recognised	–	40	36	–
Amount written off as uncollectible	(496)	–	–	(616)
	<u>721</u>	<u>761</u>	<u>797</u>	<u>181</u>
At end of year/period	<u>721</u>	<u>761</u>	<u>797</u>	<u>181</u>

**20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS**

**Group**

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	115,321	65,365	109,205	143,919
Times deposits	214,924	229,592	236,547	343,942
	<u>330,245</u>	<u>294,957</u>	<u>345,752</u>	<u>487,861</u>
Less: Pledged time deposits:				
Pledged for bank loans (note 23(iii))	–	14,250	221,150	331,570
Pledged for bills payables	214,924	215,342	15,397	12,372
	<u>214,924</u>	<u>215,342</u>	<u>15,397</u>	<u>12,372</u>
Cash and cash equivalents	<u>115,321</u>	<u>65,365</u>	<u>109,205</u>	<u>143,919</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.

**21. TRADE AND BILLS PAYABLES**

**Group**

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	131,497	37,337	159,157	240,901
Bills payables	248,071	249,084	94,926	59,605
	<u>379,568</u>	<u>286,421</u>	<u>254,083</u>	<u>300,506</u>

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

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	148,528	223,446	189,799	228,066
3 to 6 months	173,380	61,764	62,172	70,968
6 to 12 months	5,075	105	259	151
12 to 24 months	52,315	286	1,095	911
24 to 36 months	169	589	89	41
Over 36 months	101	231	669	369
	<u>379,568</u>	<u>286,421</u>	<u>254,083</u>	<u>300,506</u>

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

## 22. OTHER PAYABLES AND ACCRUALS

### Group

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	148,721	103,672	55,812	49,686
Taxes other than income tax	12,715	16,916	9,602	5,381
Advances from customers	5,605	19,153	53,376	24,467
Payroll payable	4,371	5,712	7,736	5,667
Other accrued liabilities	9,260	6,584	10,238	6,063
	<u>180,672</u>	<u>152,037</u>	<u>136,764</u>	<u>91,264</u>

Other payables and advances from customers are non-interest-bearing and have an average credit term of three months.

## 23. INTEREST-BEARING BANK BORROWINGS

## Group

	Effective interest rate (%)	Maturity	As at 31 December			As at 30 April 2010
			2007 RMB'000	2008 RMB'000	2009 RMB'000	RMB'000
<b>Current</b>						
Bank loans – secured*	5.060–8.019	Within 1 year	433,287	–	–	–
Bank loans – secured*	3.663–7.743	Within 1 year	–	527,963	–	–
Bank loans – secured*	1.184–8.127	Within 1 year	–	–	551,986	–
Bank loans – secured*	0.282–5.045	Within 1 year	–	–	–	682,809
			<u>433,287</u>	<u>527,963</u>	<u>551,986</u>	<u>682,809</u>
Current portion of long term bank loans – secured*	5.387–8.033		–	30,000	–	–
	7.371–8.127		–	–	28,000	–
			<u>–</u>	<u>30,000</u>	<u>28,000</u>	<u>–</u>
Discounted bank acceptances*	0.420–0.950		135,000	–	–	–
	0.350–0.520		–	90,000	–	–
	0.185–4.440		–	–	50,000	–
			<u>135,000</u>	<u>90,000</u>	<u>50,000</u>	<u>–</u>
			<u>568,287</u>	<u>647,963</u>	<u>629,986</u>	<u>682,809</u>
<b>Non-current</b>						
Bank loans – secured*	7.749–8.033	2009.7.15 – 2013.4.26	80,000	–	–	–
	7.749–8.694	2010.7.15 – 2013.4.26	–	139,000	–	–
	7.371–8.280	2011.11.15 – 2013.4.26	–	–	89,500	–
	4.860–6.831	2011.7.15 – 2015.4.12	–	–	–	106,322
			<u>80,000</u>	<u>139,000</u>	<u>89,500</u>	<u>106,322</u>
			<u>648,287</u>	<u>786,963</u>	<u>719,486</u>	<u>789,131</u>
Repayable:						
Within one year or on demand			568,287	647,963	629,986	682,809
In the second year			20,000	48,000	42,000	30,000
In the third to fifth years, inclusive			40,000	91,000	47,500	76,322
Beyond five years			20,000	–	–	–
			<u>648,287</u>	<u>786,963</u>	<u>719,486</u>	<u>789,131</u>

*Notes:*

\* The Group's bank borrowings are secured by:

- (i) Mortgages over the Group's buildings and plant and machinery situated in the PRC with aggregate net book values of RMB574,859,000, RMB606,190,000, RMB201,896,000 and RMB107,772,000 as at 31 December 2007, 2008 and 2009 and 30 April 2010, respectively (note 13).
- (ii) Mortgages over the Group's leasehold land situated in the PRC with aggregate carrying values of RMB11,128,000, RMB10,884,000, RMB9,411,000 and nil as at December 2007, 2008 and 2009 and 30 April 2010 (note 14).
- (iii) Pledge of certain of the Group's time deposits amounting to nil, RMB14,250,000, RMB221,150,000 and RMB331,570,000 as at 31 December 2007, 2008 and 2009 and 30 April 2010, respectively (note 20).
- (iv) Guarantees by related parties

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	RMB'000
Zhejiang Jiahua Group Co., Limited	109,000	116,000	—	—
Guan Jianzhong	30,000	150,000	—	—
Han Jianhong	95,000	50,000	—	—
Zhejiang Jiahua Industrial Park Investment and Development Co., Limited ("Jiahua Industrial Park Co")	40,000	—	—	—
	<u>274,000</u>	<u>316,000</u>	<u>—</u>	<u>—</u>

- (v) Guarantees by third parties

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	RMB'000
Jiaxing New Century Chemical Group Co., Limited	50,000	—	—	—
Hangzhou Hongshan Chemical Fiber Co., Limited	150,000	50,000	—	—
	<u>200,000</u>	<u>50,000</u>	<u>—</u>	<u>—</u>

**24. DEFERRED TAX**

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

**Deferred tax liabilities**

*Group*

	<b>Accrued expenses RMB'000</b>	<b>Withholding tax on the distributable profits RMB'000</b>	<b>Total RMB'000</b>
At 1 January 2007	–	–	–
Deferred tax charged to the statement of income during the year ( <i>note 11</i> )	341	–	341
At 31 December 2007 and 1 January 2008	341	–	341
Deferred tax charged/(credited) to the statement of income during the year ( <i>note 11</i> )	(341)	14,110	13,769
At 31 December 2008 and 1 January 2009	–	14,110	14,110
Deferred tax charged to the statement of income during the year ( <i>note 11</i> )	–	18,712	18,712
At 31 December 2009 and 1 January 2010	–	32,822	32,822
Deferred tax charged to the statement of income during the period ( <i>note 11</i> )	–	7,772	7,772
At 30 April 2010	–	40,594	40,594

## Deferred tax assets

## Group

	Impairment of assets <i>RMB'000</i>	Pre-operating expense <i>RMB'000</i>	Unrealised profit attributable to intra-group transactions <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2007	–	1,737	109	1,846
Deferred tax credited to the statement of income during the year ( <i>note 11</i> )	26	–	799	825
At 31 December 2007 and 1 January 2008	26	1,737	908	2,671
Deferred tax credited/(charged) to the statement of income during the year ( <i>note 11</i> )	10	(579)	(895)	(1,464)
At 31 December 2008 and 1 January 2009	36	1,158	13	1,207
Deferred tax credited/(charged) to the statement of income during the year ( <i>note 11</i> )	9	(579)	(10)	(580)
At 31 December 2009 and 1 January 2010	45	579	3	627
Deferred tax charged to the statement of income during the period ( <i>note 11</i> )	–	(193)	(3)	(196)
At 30 April 2010	45	386	–	431

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 those 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 subsidiaries established in Mainland China since 1 January 2008, no matter whether such earnings have been declared or not by the subsidiaries at the reporting dates.

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 Yongming Petrochemical, 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:

	As at 31 December			As at 30 April
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Tax losses of Yongming Petrochemical	903	1,517	–	–
Tax losses of Sanjiang Trading	–	–	14	55
Tax losses of Hangzhou Sanjiang	–	–	–	13
Tax losses of Guanlang	–	79	107	41
	<u>903</u>	<u>1,596</u>	<u>121</u>	<u>109</u>

Tax losses are available for five years to offset against future taxable profits at the companies in which the losses arose.

## 25. SHARE CAPITAL

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

	Notes	Number of shares	Amount RMB'000
Authorised ordinary shares of US\$1 each:			
At 31 December 2009 and 30 April 2010	(i)	<u>132,000</u>	<u>901</u>
Issued and fully paid ordinary shares of US\$1 each:			
At 30 January 2009, date of incorporation	(i)	1	–
Issue of shares on 4 August 2009	(ii)	9,999	68
Issue of shares on 28 September 2009	(iii)	114,080	779
Issue of shares on 8 December 2009	(iv)	<u>7,920</u>	<u>54</u>
At 31 December 2009 and 30 April 2010		<u>132,000</u>	<u>901</u>

- (i) As at the date of incorporation, the authorised ordinary share capital of the Company was US\$1 and was fully paid at par. The share was subsequently transferred to Sure Capital International Limited ("Sure Capital") on 4 August 2009.
- (ii) On 4 August 2009, 9,999 ordinary shares were issued to Sure Capital for a consideration of US\$9,999 (equivalent to approximately RMB68,000).
- (iii) On 28 September 2009, the Company acquired 10,000 shares of HK\$1 each in Capitol International from Guan Jianzhong and Han Jianhong in consideration of and in exchange for which the Company allotted and issued 114,080 shares to Sure Capital at the direction of Guan Jianzhong and Han Jianhong.
- (iv) On 8 December 2009, 7,920 ordinary shares were issued to CITIC International Assets Management Limited, Creation One International Limited, Chemwin Limited, Rich Honour Holdings Limited and BOCOM International Holdings Company Limited for a total cash consideration of US\$10,000,000 (equivalent to approximately RMB68,282,000). After the issuance, these new investors held 6% of the paid-in capital of the Company.

## 26. RESERVES

## Group

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Share premium	–	–	493,934	493,934
Merger reserve	36,489	36,489	(601,644)	(593,592)
Statutory surplus reserve	15,388	29,570	56,331	65,048
	<u>51,877</u>	<u>66,059</u>	<u>(51,379)</u>	<u>(34,610)</u>

## Share premium

On 1 September 2009, the Company acquired 990,000 shares of HK\$1 each in Capitol International in consideration of cash amounting to HK\$990,000, and on 28 September 2009, the Company acquired other 10,000 shares of HK\$1 each in Capitol International from Guan Jianzhong and Han Jianhong in consideration of and in exchange for which the Company allotted and issued 114,080 shares to Sure Capital at the direction of Guan Jianzhong and Han Jianhong. The value of net assets over the consideration of cash and shares equivalent approximately to RMB425,706,000 was recognised as share premium.

On 8 December 2009, 7,920 shares at par value of US\$1 each were issued for a total cash consideration of US\$10,000,000 (equivalent approximately to RMB68,282,000).

## Merger reserve

The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation as mentioned in note 2 of Section II to the Financial Information.

## Statutory surplus reserves

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

## Company

	As at	As at
	31 December	30 April
	2009	2010
	RMB'000	RMB'000
Share premium	<u>493,934</u>	<u>493,934</u>

**27. DISPOSAL OF A SUBSIDIARY**

In June 2009, the Group set up a subsidiary, Jiaying Jianghao Property Co., Limited ("Jianghao Property") and in December 2009, the Group disposed of its direct interest in Jianghao Property to Jiaying Port Area Jianghao Investment and Development Co., Limited ("Jianghao Investment"), for a cash consideration of RMB50,000,000.

Net assets disposed of:

	<i>RMB'000</i>
Property, plant and equipment	48
Cash and bank balances	2,359
Prepayments and other receivables	773
Development property	145,628
Other payables and accruals	(1,107)
Amount due to related parties	(97,701)
	<hr/>
	50,000
Gain on disposal of a subsidiary	<hr/> –
Satisfied by cash	<hr/> <hr/> 50,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	<i>RMB'000</i>
Cash consideration	50,000
Cash and bank balances disposed of	(2,359)
	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<hr/> <hr/> 47,641

**28. PLEDGE OF ASSETS**

Details of the Group's bank borrowings which are secured by the assets of the Group, are included in note 13, note 14 and note 23 to the Financial Information.

**29. CONTINGENT LIABILITIES**

The Group had the following contingent liabilities not provided for as at the respective reporting periods:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>30 April</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees given to banks in connection with loans granted to:				
Related parties	198,933	307,933	50,000	30,000*
Third parties	115,200	128,440	5,500	–
	<hr/>	<hr/>	<hr/>	<hr/>
	314,133	436,373	55,500	30,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

\* This guarantee contract was released on 20 July 2010.

## 30. COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from six to ten years and the rental expense will be renewed every three years. At each of the reporting dates during the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Operating lease commitments:				
Within one year	–	–	–	1,200
In the second to fifth years, inclusive	–	–	–	2,400
	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,600</u>

The Group had the following capital commitments at each of the reporting dates during the Relevant Periods:

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Contracted, but not provided for:				
Investment in Honam Chemical Co., Limited ("Sanjiang Honam")	–	–	–	40,958
Plant and machinery	167,173	36,045	26,381	91,628
	<u>167,173</u>	<u>36,045</u>	<u>26,381</u>	<u>132,586</u>

Jiaxing Sanjiang and Honam Petrochemical Corp. entered into an agreement to establish a jointly-controlled enterprise in the PRC namely Sanjiang Honam. The registered capital of Sanjiang Honam is US\$12,000,000. Each of Jiaxing Sanjiang and Honam Petrochemical Corp. holds 50% of the shareholding interest in Sanjiang Honam.

## 31. RELATED PARTY TRANSACTIONS

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

Company	Relationship
Sure Capital	The parent and ultimate holding company
Guan Jianzhong	Ultimate controlling shareholder
Han Jianhong	Ultimate controlling shareholder
Han Jianping	Director of a subsidiary
Guan Songbiao	Close family member
Ge Zhiying	Close family member
Lai Youying	Close family member
Hangzhou Haoming	Fellow subsidiary
Jiahua Industrial Park Co	Fellow subsidiary
Jianghao Limited	Fellow subsidiary
Jianghao Property	Fellow subsidiary
Jianghao Investment	Fellow subsidiary
Jiaxing Xinggang Rewang Co., Limited ("Jiaxing Rewang")	Associate of fellow subsidiary

- (a) In addition to the transactions detailed elsewhere in the Financial Information, the Group had the following material transactions with related parties during the Relevant Periods.

**Group**

		Year ended 31 December			Four months ended 30 April
		2007	2008	2009	2010
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Purchases from:					
Jiahua Industrial Park Co	(i)	539	7,251	50,474	16,361
Jiaxing Rewang	(i)	15,500	19,235	3,285	1,120
		<u>16,039</u>	<u>26,486</u>	<u>53,759</u>	<u>17,481</u>
Rental income:					
Jiaxing Rewang		<u>578</u>	<u>658</u>	<u>702</u>	<u>222</u>
Rental expense:					
Hangzhou Haoming		<u>—</u>	<u>—</u>	<u>—</u>	<u>100</u>

*Note:*

- (i) The purchases from the related party were made according to the published prices and conditions offered by the related party to its major customers.
- (b) Outstanding balances with related parties:

**Group**

		As at 31 December			As at 30 April
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
Due from related parties:					
Equity holders		96,041	197,527	39,493	—
Jiahua Industrial Park Co	2	—	—	—	—
Jianghao Limited		2,996	30,057	32,292	—
Han Jianping		7,280	7,660	—	—
Ge Zhiying		5,000	5,000	—	—
Lai Youying		1,500	—	—	—
Jianghao Property		—	—	70,618	—
		<u>112,819</u>	<u>240,244</u>	<u>142,403</u>	<u>—</u>

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Due to related parties:				
Hangzhou Haoming	–	–	–	(582)
Jiahua Industrial Park Co	–	(4,605)	(4,587)	(2,514)
Lai Youying	–	(100)	(100)	(100)
Jiaying Rewang	(3,938)	(4,283)	(1,191)	(529)
	<u>(3,938)</u>	<u>(8,988)</u>	<u>(5,878)</u>	<u>(3,725)</u>

	As at	As at
	31 December	30 April
	2009	2010
	RMB'000	RMB'000

**Group and Company**

Due to the parent and ultimate holding company	<u>(68,282)</u>	<u>(136,525)</u>
--	-----------------	------------------

**Company**

Due from a subsidiary:

Capitol International	<u>301,806</u>	<u>317,423</u>
-----------------------	----------------	----------------

Due to a subsidiary:

Capitol International	<u>(873)</u>	<u>–</u>
-----------------------	--------------	----------

The balances with related parties, the parent and ultimate holding company and a subsidiary are non-interest-bearing, unsecured and have no fixed terms of repayment.

## (c) Outstanding balances with directors:

**Group**

	<b>As at 31 December</b>			<b>As at</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>30 April</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from directors:				
Han Jianhong	12,850	9,720	–	–
Guan Jianzhong	2,008	6,819	–	–
	<u>14,858</u>	<u>16,539</u>	<u>–</u>	<u>–</u>
Due to directors:				
Han Jianhong	(121,454)	(124,580)	(1,475)	–
Guan Jianzhong	–	–	(89)	(80)
	<u>(121,454)</u>	<u>(124,580)</u>	<u>(1,564)</u>	<u>(80)</u>

The balances with directors were non-trade in nature, unsecured, interest-free and had no fixed terms of repayment. The balances included net cash advances made between the Group and the directors and various payments made by the Group on behalf of the directors.

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

	<b>Year ended 31 December</b>			<b>Four months ended</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>30 April</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short term employee benefits	658	835	1,144	418
Pension scheme contributions	7	8	10	5
Total compensation paid to key management personnel	<u>665</u>	<u>843</u>	<u>1,154</u>	<u>423</u>

Further details of directors' remuneration are included in note 9 to the Financial Information.

**32. FINANCIAL INSTRUMENTS BY CATEGORY****Financial assets**

All the Group's financial assets as at the end of the reporting periods during the Relevant Periods, including trade and notes receivables, deposits and other receivables, amounts due from directors, related parties, pledged deposits and cash and cash equivalents are categorised as loans and receivables.

**Financial liabilities**

All the Group's financial liabilities as at the end of the reporting period during the Relevant Periods, including trade and bills payables, other payables, amounts due to directors, related parties and the parent and ultimate holding company and interest-bearing bank borrowings are categorised as financial liabilities at amortised cost.

### 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

#### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings. Some of these interest-bearing bank borrowings were obtained at floating interest rates, which have exposed the Group to fair value interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The interest rates and terms of repayments of borrowings are disclosed in note 23 above.

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

#### Group

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2007		
RMB	50	(14)
RMB	(50)	14
Year ended 31 December 2008		
RMB	50	(24)
RMB	(50)	24
Year ended 31 December 2009		
RMB	50	(35)
RMB	(50)	35
Four months ended 30 April 2010		
RMB	50	(44)
RMB	(50)	44

#### Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 50%, 92%, 80% and 74% of the Group's purchases for the years ended 31 December 2007, 2008 and 2009 and 30 April 2010, respectively, were denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% of sales for the Relevant Periods were denominated in the units' functional currencies. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arises.

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

*Group*

	<b>Increase/ (decrease) in foreign currency rate %</b>	<b>Increase/ (decrease) in profit before tax RMB'000</b>
Year ended 31 December 2007		
If RMB weakens against United States dollar	5	(14,157)
If RMB strengthens against United States dollar	(5)	14,157
Year ended 31 December 2008		
If RMB weakens against United States dollar	5	(11,178)
If RMB strengthens against United States dollar	(5)	11,178
Year ended 31 December 2009		
If RMB weakens against United States dollar	5	(32,303)
If RMB strengthens against United States dollar	(5)	32,303
Four months ended 30 April 2010		
If RMB weakens against United States dollar	5	(20,540)
If RMB strengthens against United States dollar	(5)	20,540

**Credit risk**

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. At the end of 30 April 2010, the Group had certain concentrations of credit risk as 11% (2009: 26%, 2008: 24% and 2007: 32%) and 15% (2009: 36%, 2008: 38% and 2007: 47%) of the Group's trade and notes receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables and prepayments, deposits and other receivables are disclosed in note 18 and note 19, respectively, to the financial statements.

**Liquidity risk**

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

The maturity profile of the Group's financial liabilities as at each of the reporting dates during the Relevant Periods, based on the contractual undiscounted payments, was as follows:

*Group*

	<b>31 December 2007</b>					<b>Total</b>
	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to less than 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills payables	57,835	157,861	163,872	–	–	379,568
Other payables and accruals	118,205	49,343	2,334	10,790	–	180,672
Interest-bearing bank borrowings	–	244,006	337,802	75,200	28,491	685,499
Due to related parties	3,938	–	–	–	–	3,938
Due to directors	121,454	–	–	–	–	121,454
Guarantees given to banks in connection with facilities granted to related parties	–	–	–	198,933	–	198,933
Guarantees given to banks in connection with facilities granted to third parties	–	55,000	60,200	–	–	115,200
	<u>301,432</u>	<u>506,210</u>	<u>564,208</u>	<u>284,923</u>	<u>28,491</u>	<u>1,685,264</u>
<b>31 December 2008</b>						
	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to less than 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills payables	40,367	111,054	135,000	–	–	286,421
Other payables and accruals	16,889	36,349	67,354	31,433	12	152,037
Interest-bearing bank borrowings	–	380,282	277,463	171,445	–	829,190
Due to related parties	8,988	–	–	–	–	8,988
Due to directors	124,580	–	–	–	–	124,580
Guarantees given to banks in connection with facilities granted to related parties	–	40,000	214,000	53,933	–	307,933
Guarantees given to banks in connection with facilities granted to third parties	–	120,440	8,000	–	–	128,440
	<u>190,824</u>	<u>688,125</u>	<u>701,817</u>	<u>256,811</u>	<u>12</u>	<u>1,837,589</u>

31 December 2009						
	On	Less than	3 to	1 to 5	Over	Total
	demand	3 months	less than	years	5 years	
	RMB'000	RMB'000	12 months	RMB'000	RMB'000	RMB'000
Trade and bills payables	16,907	198,249	38,927	—	—	254,083
Other payables and accruals	16,730	80,233	29,182	10,619	—	136,764
Interest-bearing bank borrowings	—	138,563	499,353	101,758	—	739,674
Due to related parties	5,878	—	—	—	—	5,878
Due to directors	1,564	—	—	—	—	1,564
Due to the parent and ultimate holding company	68,282	—	—	—	—	68,282
Guarantees given to banks in connection with facilities granted to related parties	—	20,000	—	30,000	—	50,000
Guarantees given to banks in connection with facilities granted to third parties	—	5,500	—	—	—	5,500
	<u>109,361</u>	<u>442,545</u>	<u>567,462</u>	<u>142,377</u>	<u>—</u>	<u>1,261,745</u>
30 April 2010						
	On	Less than	3 to	1 to 5	Over	Total
	demand	3 months	less than	years	5 years	
	RMB'000	RMB'000	12 months	RMB'000	RMB'000	RMB'000
Trade and bills payables	216,945	70,639	11,605	1,317	—	300,506
Other payables and accruals	13,652	41,008	26,050	10,554	—	91,264
Interest-bearing bank borrowings	—	172,548	520,184	119,078	—	811,810
Due to related parties	3,725	—	—	—	—	3,725
Due to directors	80	—	—	—	—	80
Due to the parent and ultimate holding company	136,525	—	—	—	—	136,525
Guarantees given to banks in connection with facilities granted to related parties	—	—	—	30,000	—	30,000
	<u>370,927</u>	<u>284,195</u>	<u>557,839</u>	<u>160,949</u>	<u>—</u>	<u>1,373,910</u>

The maturity profile of the Company's financial liabilities as at each of the reporting dates during the Relevant Periods, based on the contractual undiscounted payments, was as follows:

*Company*

	31 December 2009					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	less than 3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Due to the parent and ultimate holding Company	68,282	—	—	—	—	68,282
Due to a subsidiary	873	—	—	—	—	873
Due to directors	9	—	—	—	—	9
	<u>69,164</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>69,164</u>

	30 April 2010					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	less than 3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Due to the parent and ultimate holding Company	136,525	—	—	—	—	136,525
	<u>136,525</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>136,525</u>

**Capital management**

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

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

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

	As at 31 December			As at
	2007	2008	2009	30 April
	RMB'000	RMB'000	RMB'000	2010
				RMB'000
Trade and bills payables	379,568	286,421	254,083	300,506
Other payables and accruals	180,672	152,037	136,764	91,264
Interest-bearing bank borrowings	648,287	786,963	719,486	789,131
Due to directors	121,454	124,580	1,564	80
Due to related parties	3,938	8,988	5,878	3,725
Due to the parent and ultimate holding company	–	–	68,282	136,525
Dividends payable	12,070	56,956	172,036	113,659
Less: Cash and cash equivalents	(115,321)	(65,365)	(109,205)	(143,919)
Pledged deposits	(214,924)	(229,592)	(236,547)	(343,942)
Net debt	1,015,744	1,120,988	1,012,341	947,029
Equity attributable to equity holders	194,129	301,850	234,360	281,140
Capital and net debt	1,209,873	1,422,838	1,246,701	1,228,169
Gearing ratio	84%	79%	81%	77%

#### 34. EVENTS AFTER THE REPORTING PERIOD

On 11 May 2010, Sanjiang Honam, a jointly-controlled enterprise in the PRC, was established by Jiaxing Sanjiang and Honam Petrochemical Corp. The registered capital of Sanjiang Honam is US\$12,000,000. The principal activities of Sanjiang Honam are the manufacture and sale of EO, ethylene glycol, oxygen, nitrogen and argon. Each of Jiaxing Sanjiang and Honam Petrochemical Corp. holds 50% of the shareholding interest in Sanjiang Honam.

During May to July 2010, the Company paid the dividend of RMB100,200,000 in cash to the holding company.

Pursuant to a share subscription agreement dated 6 May 2010 and entered into between Sure Capital and the Company, Sure Capital subscribed for an aggregate of 4,470 shares at par value of US\$1 each at par and for a cash consideration of US\$4,470.

#### 35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2010. Save as disclosed in the report, no dividend has been declared of, made by the Company or any companies now comprising the Group in respect of any period subsequent to 30 April 2010.

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

*The information set out in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included in this prospectus for information only.*

*The unaudited pro forma financial information should be read in conjunction with "Financial Information" and "Appendix I – Accountants' Report".*

*The following unaudited pro forma financial information prepared in accordance with paragraph 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to provide the investors with further information about (i) how the proposed listing might have affected the combined net tangible assets of the Group as if the Global Offering had occurred on 30 April 2010. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions of the financial periods concerns.*

#### UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared to show the effect on the consolidated net tangible assets of the Group as at 30 April 2010 as if the Global Offering had occurred on 30 April 2010.

The unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared for illustrative purposes only and, because of their nature, they may not give a true picture of the financial position of the Group.

The following unaudited pro forma adjusted consolidated net tangible assets of the Group have been prepared based on the audited consolidated net assets of the Group as at 30 April 2010 as extracted from "Appendix I – Accountants' Report", and is adjusted as described below.

	<b>Audited consolidated net tangible assets attributable to equity holders of the parent as at 30 April 2010 <sup>(1)</sup> RMB'000</b>	<b>Estimated net proceeds from the Global Offering <sup>(2)</sup> RMB'000</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets <sup>(3)</sup> RMB'000</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(4)</sup> RMB    HK\$</b>	
Based on an Offer Price of HK\$2.38 per Share	262,508	482,976	745,484	0.74	0.84
Based on an Offer Price of HK\$3.38 per Share	262,508	695,137	957,645	0.95	1.08

- (1) The audited consolidated net tangible assets attributable to equity holder of the parent of the Company as at 30 April 2010 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the parent as at 30 April 2010 of RMB281,140,000 with an adjustment for intangible assets as at 30 April 2010 of RMB18,632,000.
- (2) The forecast net proceeds from the Global Offering are based on the Offer Price of HK\$2.38 and HK\$3.38 per Share, respectively, after the deduction of the forecast underwriting fees and other related fees and expenses, and do not take into account of any Shares that may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised, the unaudited pro forma adjusted net tangible assets attributable to owners of the parent and unaudited pro forma adjusted consolidated net tangible assets per Share will increase. The forecast net proceeds from the Global Offering are translated at the exchange rate of HK\$1 = RMB0.8756.
- (3) Details of valuation of the Group's properties as at 31 July 2010 are set out in Appendix IV to this prospectus. With reference to such valuation, there is a revaluation surplus of approximately RMB5,763,000 compared to the carrying values of the Group's properties as of 31 July 2010. The Group will not incorporate the revaluation surplus in the consolidated financial statements for the year ended 31 December 2009 or the above unaudited pro forma adjusted consolidated net tangible assets because it is the Group's accounting policy to state the property interests, classified under the captions "Property, plant and equipment" and "Prepaid Land Lease Payments" in the Accountants' Report set out in Appendix I to this prospectus, at cost less accumulated depreciation/amortisation and impairment rather than at revalued amounts.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in note 2 above and on the basis that 1,009,303,000 Shares are issued and outstanding as set out in the "Share Capital" section of this prospectus, and that the Over-allotment Option has not been exercised. The unaudited pro forma adjusted net tangible assets per Share are translated at the exchange rate of HK\$1 = RMB0.8756.

**UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE**

The following unaudited pro forma estimated earnings per Share for the six months ended 30 June 2010 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2010.

This unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and, because of its nature, it may not give true and fair picture of the financial results of the Group following the Global Offering.

**For the six months ended 30 June 2010**

Unaudited estimated consolidated net profit  
 attributable to equity holders of the parent  
 for the six months ended 30 June 2010 <sup>(1)</sup> . . . . . Not less than RMB109 million  
 (equivalent to approximately HK\$124 million)

Unaudited pro forma estimated earnings per Share <sup>(2)</sup> . . . . . Not less than RMB0.11  
 (equivalent to approximately HK\$0.13)

<sup>(1)</sup> The unaudited estimated consolidated profit attributable to equity holders of the parent for the six months ended 30 June 2010 is extracted from the section headed “Financial information” in this prospectus. The bases on which the above estimated profit has been prepared are summarised in Appendix III to this prospectus. The estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 has been prepared based on the audited consolidated results for the four months ended 30 April 2010 and the unaudited consolidated results based on management accounts of the Group for the two months ended 30 June 2010. The Directors have undertaken to the Stock Exchange that our interim report for the six months ended 30 June 2010 will be audited pursuant to Rule 11.18 of the Listing Rules. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Section II of the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. The estimated consolidated net profit attributable to equity holders of the parent is translated at the exchange rate of HK\$1 = RMB0.8756.

<sup>(2)</sup> The unaudited pro forma estimated earnings per Share is calculated by dividing the unaudited estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010, on the basis that 1,009,303,000 Shares were in issue, assuming that the Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2010, but does not take into account of any shares that may be issued upon the exercise of the Over-allotment Option. The unaudited pro forma estimated earnings per Share is translated at the exchange rate of HK\$1 = RMB0.8756.

*Our estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 is set out in the section headed “Financial information – Profit estimate for the six months ended 30 June 2010”.*

#### **I. BASES AND ASSUMPTIONS**

Our Directors have prepared the estimated consolidated net profit attributable to equity holders of the parent for the six months ended 30 June 2010 based on the audited consolidated results of our Group for the four months ended 30 April 2010 and an estimate of the consolidated results of our Group for the remaining two months ended 30 June 2010. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by us as set out in Note 3.3 of Section II of the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.

**II. LETTER FROM THE REPORTING ACCOUNTANTS**

*The following is the text of a letter received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

3 September 2010

The Directors  
China Sanjiang Fine Chemicals Company Limited  
Scotia Centre, 4th Floor  
P.O. Box 2804  
George Town  
Grand Cayman  
KY1-1112  
Cayman Islands

and

BOCOM International (Asia) Limited  
9th Floor, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

Daiwa Capital Markets Hong Kong Limited  
Level 26, One Pacific Place  
88 Queensway, Hong Kong

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the estimate of the consolidated net profit attributable to equity holders of the parent of China Sanjiang Fine Chemicals Company Limited (the “Company”) and its subsidiaries, (hereinafter collectively referred to as the “Group”) for the six month ended 30 June 2010 (the “Profit Estimate”) as set out in the section headed “Financial information – Profit estimate for the six months ended 30 June 2010” in the prospectus of the Company dated 3 September 2010 (the “Prospectus”) for which the directors of the Company (the “Directors”) are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 “Accountants’ Report on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Estimate has been prepared by the Directors based on the audited consolidated results of the Group for the 4 months ended 30 April 2010, the unaudited consolidated results based on the management accounts of the Group for the remaining 2 months ended 30 June 2010.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases made by the Directors as set out in Part I of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 3 September 2010, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

### III. LETTER FROM THE JOINT SPONSORS

*The following is the text of a letter, prepared for inclusion in this prospectus by the Joint Sponsors, in connection with the profit estimate of the Group for the six months ended 30 June 2010.*

BOCOM International (Asia) Limited  
9th Floor, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

Daiwa Capital Markets Hong Kong Limited  
Level 26, One Pacific Place  
88 Queensway  
Hong Kong

3 September 2010

The Board of Directors  
China Sanjiang Fine Chemicals Company Limited

Dear Sirs,

We refer to the estimate of the consolidated net profit attributable to equity holders of the parent of China Sanjiang Fine Chemicals Company Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2010 (the “**Estimate**”) as set out in the section headed “Financial information – Profit estimate for the six months ended 30 June 2010” in the prospectus of the Company dated 3 September 2010 (the “**Prospectus**”).

The Estimate, for which the directors of the Company (the “**Directors**”) are solely responsible, has been prepared by the Directors based on the audited consolidated results of the Group for the four months ended 30 April 2010 and an estimate of the consolidated results of the Group for the remaining two months ended 30 June 2010.

We have discussed with you the bases and assumptions made by you as set out in Appendix III to the Prospectus upon which the Estimate has been made. We have also considered the letter dated today addressed to yourselves and ourselves from Ernst & Young, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Estimate has been made.

On the basis of the information comprising the Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we are of the opinion that the Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of

**BOCOM International (Asia) Limited**  
**Griffin Tse**  
*Director, Investment Banking*

**Daiwa Capital Markets Hong Kong Limited**  
**Eddie Wong**  
*Senior Vice President*

*The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this prospectus received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of value of the properties of our Group as at 31 July 2010.*



16th Floor  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

3 September 2010

The Board of Directors  
China Sanjiang Fine Chemicals Company Limited

Dear Sirs,

#### **INSTRUCTIONS, PURPOSE AND DATE OF VALUATION**

In accordance with your instructions for us to value the properties held by China Sanjiang Fine Chemicals Company Limited (referred to as “the Company”) and its subsidiaries (hereinafter together referred to as “the Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of the market values of the properties as at 31 July 2010 (the “date of valuation”).

#### **DEFINITION OF MARKET VALUE**

Our valuation of each of the properties represents the market value which in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

**VALUATION BASIS AND ASSUMPTION**

Our valuation of each of the properties excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value. Unless otherwise stated, in the course of our valuation of the properties held and occupied by the Group in the PRC, we have assumed that transferable land use rights in respect of the properties for respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have assumed that the grantees or the users of the properties have free and uninterrupted rights to use or assign the properties for the whole of the respective unexpired terms as granted.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

**METHOD OF VALUATION**

In valuing the properties in Group I, which are held by the Group for owner-occupation in the PRC, we have adopted the Depreciated Replacement Costs (“DRC”) approach. Due to the specific nature and use of the buildings and structures, we have valued the property by reference to the DRC. DRC is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at our opinion of value of the land, we have adopted the direct comparison approach by making reference to comparable sales evidence as available in the relevant market. The value is subject to service potential of the entity from the use of assets as a whole.

Property in Group II which is leased to the Group in the PRC has no commercial value mainly due to the prohibitions against assignment and subletting or otherwise to the lack of substantial profit rents.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

**SOURCE OF INFORMATION**

However, we have not searched the original documents to ascertain ownership or to verify any amendments. We have been provided with extracts of documents in relation to the title to the properties in the PRC. We have relied upon information given to us by the Group and we have also relied on its PRC legal adviser, Allbright Law Offices (“the PRC legal opinion”), in respect of the Group’s interest in the properties in the PRC.

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and the Group’s PRC legal adviser and have accepted advice given to us on such matters as planning approvals, statutory notices, tenure, identification of properties, completion dates of buildings, construction costs, particulars of occupancy, tenancy details, site and floor areas and all other relevant matters.

**SITE INSPECTION**

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or other structural defects. No test was carried out on any of the services.

**CURRENCY**

Unless otherwise stated, all money amounts stated in our valuations are in Renminbi (“RMB”), the official currency of the PRC.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,  
for and on behalf of  
**DTZ Debenham Tie Leung Limited**  
**K. B. Wong**  
*Registered Professional Surveyor (GP)*  
*China Real Estate Appraiser*  
*M.H.K.I.S., M.R.I.C.S.*  
*Director*

*Note:* Mr. K. B. Wong is a Registered Professional Surveyor who has over 25 years’ of experience in the valuation of properties in the PRC.

## SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 31 July 2010	Interest attributable to the Group %	Capital value in existing state attributable to the Group as at 31 July 2010
<b>Group I – Properties held by the Group for owner-occupation in the PRC</b>			
1. Industrial complex at the western side of Pinghai Road, Jiaxing Port Economic Development Zone, Jiaxing, Zhejiang Province The PRC	RMB74,600,000	100%	RMB74,600,000
2. Industrial complex (adjacent to property no.1) at the western side of Pinghai Road, Jiaxing Port Economic Development Zone, Jiaxing, Zhejiang Province The PRC	RMB68,000,000	100%	RMB68,000,000
3. Various residential units of Zhongxing Garden Zhapu Town, Jiaxing Port Economic Development Zone, Jiaxing, Zhejiang Province The PRC	RMB10,100,000	100%	RMB10,100,000
	<hr/>		<hr/>
<b>Sub-total:</b>	<u>RMB152,700,000</u>		<u>RMB152,700,000</u>

Property	Capital value in existing state as at 31 July 2010	Interest attributable to the Group %	Capital value in existing state attributable to the Group as at 31 July 2010
<b>Group II – Property leased to the Group in the PRC</b>			
4. An industrial complex at Shanmozhi Village Xinjie Town, Xiaoshan District, Hangzhou, Zhejiang Province The PRC	No commercial value	–	No commercial value
<b>Grand-total:</b>	<u>RMB152,700,000</u>		<u>RMB152,700,000</u>

## VALUATION CERTIFICATE

## Group I – Properties held by the Group for owner-occupation in the PRC

			Capital value in existing state as at 31 July 2010
Property	Description and tenure	Particulars of occupancy	
1. Industrial complex at the western side of Pinghai Road, Jiaxing Port Economic Development Zone, Jiaxing, Zhejiang Province The PRC	<p>The property comprises an industrial complex erected upon 2 parcels of land with a site area of approximately 170,200.80 sq m. (see note (1) below)</p> <p>The industrial complex comprises 8 buildings with a total gross floor area of approximately 12,321.59 sq m completed in the period between 2005 and 2009. (see note (2) below)</p> <p>The industrial complex also comprises 2 workshops with a total gross floor area of 1,872.40 sq m, which were under construction at the date of valuation and the building ownership certificates have not been obtained, and 4 temporary buildings with a total gross floor area of 580 sq m. (see notes (3) and (4) below)</p> <p>The land use rights of the property have been granted for various terms. (see note (1) below)</p>	The property is currently occupied by the Group for production purposes.	RMB74,600,000

## Notes:–

- (1) According to the 2 Certificates for the Use of State-owned Land Use Rights issued by Jiaxing Land Resources Bureau Port Area Branch, the land use rights of the property comprising a total site area of 170,200.80 sq m have been granted to Sanjiang Chemical Co., Ltd.\* (三江化工有限公司) (an indirect wholly-owned subsidiary of the Company) for industrial and warehouse use and for industrial use respectively with the details as follows:

Certificate No.	Land Use Rights Term	Site Area (sq m)
(2010)21-22	due to expire on 19 June 2055	49,890.80
(2009)21-21	due to expire on 9 June 2054	120,310.00
	Total:	<u>170,200.80</u>

- (2) According to 8 Building Ownership Certificates Nos. 00085501, 00085502, 00085503, 00085504, 00107110, 00107111, 00107112 and 00124920 issued by Pinghu Planning and Construction Bureau, the building ownership of the property with a total gross floor area of 12,321.59 sq m, is vested in Sanjiang Chemical Co., Ltd.\* for non-residential use.

- (3) Building ownership certificates of two buildings of the property with a total gross floor area of 1,872.40 sq m have not been obtained. In the course of our valuation, we have assigned no commercial value to such buildings. Had the Group obtained all the building ownership certificates, the capital value of the buildings in its existing state as at 31 July 2010 assuming that the land premium has been fully settled, would be RMB2,300,000.
- (4) Building ownership certificate of 4 temporary buildings with a total gross floor area of 580 sq m has not been obtained. In the course of our valuation, we have assigned no commercial value to such buildings.
- (5) According to Planning Permit for Construction Works No. (2007) Zhe Gui Zheng 0451037 issued by Jiaying Port Economic Development Zone Municipal Planning Bureau on 13 June 2007, the construction works of the property was in compliance with the requirement of urban planning and was permitted to be developed with a total gross floor area of 1,050 sq m.
- (6) According to Planning Permit for Construction Works No. (2007) Zhe Gui Zheng 0451036 issued by Jiaying Port Economic Development Zone Municipal Planning Bureau on 8 September 2006, the construction works of the property was in compliance with the requirement of urban planning and was permitted to be developed with a total gross floor area of 822.4 sq m.
- (7) According to the Permit for Commencement of Construction Works No. 330422200710220105 issued by the Jiaying Port Economic Development Zone Construction Bureau on 22 October 2007 the construction works for 2 workshops were permitted to be commenced with a gross floor area of 1,050.00 sq m.
- (8) According to the Permit for Commencement of Construction Works No. 330422200705110105 issued by the Jiaying Port Economic Development Zone Construction Bureau on 11 May 2007 the construction works for 2 workshops were permitted to be commenced with a gross floor area of 822.40 sq m.
- (9) According to the Business Licence No. 330400400006549 dated 12 April 2010, Sanjiang Chemical Co., Ltd.\* was established with a registered capital of US\$22,225,000 for a valid operation period from 9 December 2003 to 8 December 2053.
- (10) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser which contains, inter-alia, the following information:
  - (i) The buildings with building ownership certificate No. 00085502 and No.00107111 owned by Sanjiang Chemical Co., Ltd.\*, have been built on a parcel of land occupied by Jiaying Yongming Petrochemical Co., Ltd.\* (嘉興永明石化有限公司) (an indirect wholly-owned subsidiary of the Company). Jiaying Yongming Petrochemical Co., Ltd.\* has agreed in writing of the aforesaid matter. No penalties will be imposed on the Group due to the aforesaid discrepancies under PRC law;
  - (ii) Two buildings of the property with a total gross floor area of approximately 1,872.4 sq m have been constructed by Sanjiang Chemical Co., Ltd\* on a parcel of land occupied by Yongming Petrochemical Co., Ltd\*. Jiaying Yongming Petrochemical Co., Ltd\* has applied for the building ownership certificates of such buildings;
  - (iii) Sanjiang Chemical Co., Ltd has obtained the land use rights and building ownership of the property;
  - (iv) The land premium has been paid in full;
  - (v) A lot with certificates for the use of state-owned land use rights no. (2010)21-22 is subject to a mortgage in favour of to China Construction Bank Zhapu Branch;
  - (vi) Except the portion which is subject to a mortgage, Sanjiang Chemical Co., Ltd has the right to freely transfer, lease, mortgage and dispose of the land portion of the property and the building portion of the property with building ownership certificate nos. 00085501, 00085503, 00085504, 00107110, 00107112 and 00124920. For the portion of the property which is subject to a mortgage, Sanjiang Chemical Co., Ltd has the right to freely transfer, lease, mortgage and dispose of such portion of the property with prior approval from the mortgagee.
  - (vii) Planning permit for construction works and permit for commencement of construction works for the 2 buildings with a total gross floor area of 1,872.40 sq m have been obtained.

- (11) The status of the title and the grant of major approvals and licences that is in accordance with the PRC legal opinion issued by the PRC legal adviser and information provided by the Group are as follows:–

Certificate for the Use of State-owned Land Use Rights	Yes
Building Ownership Certificate	Yes (part)
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Business Licence	Yes

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2010
2. Industrial complex (adjacent to property no.1) at the western side of Pinghai Road, Jiaxing Port Economic Development Zone, Jiaxing, Zhejiang Province The PRC	<p>The property comprises an industrial complex erected upon 2 parcels of land with a site area of approximately 186,454 sq m. (see note (1) below)</p> <p>The industrial complex comprises 1 building with a total gross floor area of approximately 10,102.79 sq m completed in 2009. (see note (2) below)</p> <p>The industrial complex also comprises a workshop with a total gross floor area of 2,907 sq m, which was under construction at the date of valuation and the building ownership certificate, has not been obtained and a temporary building with a total gross floor area of 20 sq m. (see notes (3) and (4) below)</p> <p>The land use rights of the property have been granted for various terms. (see note (1) below)</p>	<p>A portion of the property is currently leased to Jiaxing City Sanjiang Chemical Trading Co., Ltd* (嘉興市三江化工貿易有限公司), an indirect wholly-owned subsidiary of the Company, from 30 October 2009 to 29 October 2010 at a semiannual rental of RMB20,000.</p> <p>A portion of the property is currently leased to Jiaxing Port Area Industrial Guanlang Co., Ltd.* (嘉興市港區工業管廊有限公司), an indirect subsidiary of the Company in which hold 83.85% shareholding interest with the remaining 16.15% shareholding interest held by Jiaxing City Zhapu Construction and Investment Co., Ltd.* (嘉興市乍浦建設投資有限公司), for a term of 15 years from 23 August 2005 to 22 August 2020 at an annual rental of RMB150,000.</p> <p>Moreover, a portion of the property is currently leased to Sanjiang Honam Chemical Co., Ltd.* (三江湖石化有限公司), a sino-foreign joint venture company jointly controlled by Sanjiang Chemical Co., Ltd.* (三江化工有限公司) and Honam Petrochemical Corp. which is an independent third party, for a term of 3 years from 23 June 2010 to 22 June 2011 at an annual rental of RMB30,000.</p> <p>The remaining portion of the property is currently occupied by the Group for production purposes.</p>	RMB68,000,000

Notes:—

- (1) According to the 2 Certificates for the Use of State-owned Land Use Rights issued by Jiaxing Land Resources Bureau Port Area Branch, the land use rights of the property comprising a total site area of 186,454.00 sq m have been granted to Jiaxing Yongming Petrochemical Co., Ltd.\* (嘉興永明石化有限公司) (an indirect wholly-owned subsidiary of the Company) for industrial use with the details as follows:

Certificate No.	Land Use Rights Term	Site Area (sq m)
(2009)21-55	due to expire on 9 June 2054	121,494.00
(2009)21-64	due to expire on 29 September 2059	64,960.00
	Total:	<u>186,454.00</u>

- (2) According to the Building Ownership Certificate No. 00042189 issued by the Jiaxing Port Area Real Estate Administration Bureau dated 1 January 2005 with a total gross floor area of approximately 10,102.79 sq m, the building ownership of the property is vested in Jiaxing Yongming Petrochemical Co., Ltd.\* for non-residential use.
- (3) Building ownership certificate of a building of the property with a total gross floor area of 2,907 sq m has not been obtained. In the course of our valuation, we have assigned no commercial value to such building. Had the Group obtained the building ownership certificate, the capital value of the building in its existing state as at 31 July 2010 assuming that the land premium has been fully settled, would be RMB9,400,000.
- (4) Building ownership certificate of a temporary building with a total gross floor area of 20 sq m has not been obtained. In the course of our valuation, we have assigned no commercial value to such building.
- (5) According to the Planning Permit for Construction Works No. 33040120084068 issued by the Jiaxing Port Economic Development Zone Municipal Planning Bureau on 23 September 2008, the construction works of the property was in compliance with the requirement of urban planning and was permitted to be developed with a total gross floor area of 2,907 sq m.
- (6) According to the Permit for Commencement of Construction Works No. 330422200909170105 issued by the Jiaxing Port Economic Development Zone Construction Bureau on 17 September 2009, the construction works for the 2 workshops were permitted to be commenced with a gross floor area of 2,907 sq m.
- (7) According to the Business Licence No. 330400400007734 dated 27 April 2010, Jiaxing Yongming Petrochemical Co., Ltd.\* was established with a registered capital of US\$22,800,000 for a valid operation period from 9 December 2003 to 8 December 2053.
- (8) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser which contains, inter-alia, the following information:
- Jiaxing Yongming Petrochemical Co., Ltd.\* has legally obtained the land use rights and the building ownership of the property.
  - All land premium has been settled in full;
  - Jiaxing Yongming Petrochemical Co., Ltd.\* has the right to occupy, use, lease, transfer, mortgage and dispose of the property;
  - The property is not subject to any mortgage or encumbrance; and
  - Planning permit for construction works and permit for commencement of construction works for a building with a total gross floor area of 2,907 sq m. have been obtained.
- (9) The status of the title and the grant of major approvals and licences that is in accordance with the PRC legal opinion and information provided by the Group as follows:—

Certificate for the Use of State-owned Land Use Rights	Yes
Building Ownership Certificate	Yes (part)
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Business Licence	Yes

## VALUATION CERTIFICATE

Property	Description and tenure	Particular of occupancy	Capital value in existing state as at 31 July 2010
3. Various residential units of Zhongxing Garden, Zhapu Town, Jiaxing Port Economic Development Zone, Jiaxing, Zhejiang Province The PRC	The property comprises 30 residential units with a total gross floor area of approximately 4,544.43 sq m completed in 2007.  The land use rights of the property have been granted for a term due to expire on 28 November, 2076 for residential use.	The property is currently vacant.	RMB10,100,000

*Notes:—*

- (1) According to the Certificate for the Use of State-owned Land Use Rights No. (2009)21-546 issued by the Pinghu Municipal Government, the land use rights of the property with a site area of 714.10 sq m have been granted to Sanjiang Chemical Co., Ltd.\* (三江化工有限公司) (an indirect wholly-owned subsidiary of the Company) for a term for residential use and is due to expire on 28 November, 2076.
- (2) According to the Building Ownership Certificate No. 00085709 issued by the Pinghu Planning and Construction Bureau dated 18 November 2008 with a total gross floor area of 4,544.43 sq m, the building ownership of the property is vested in Sanjiang Chemical Co., Ltd.\*.
- (3) According to the Business Licence No. 330400400006549 dated 12 April 2010, Sanjiang Chemical Co., Ltd.\* was established with a registered capital of US\$22,225,000 for a valid operation period from 9 December 2003 to 8 December 2053.
- (4) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser which contains, inter-alia, the following information:
  - (i) Sanjiang Chemical Co., Ltd.\* has legally obtained the land use rights and the building ownership of the property;
  - (ii) All land premium has been settled in full;
  - (iii) Sanjiang Chemical Co., Ltd.\* has the right to occupy, use, lease, transfer, mortgage and dispose of the property; and
  - (iv) The property is not subject to any mortgage or encumbrance.
- (5) The status of the title and the grant of major approvals and licences that is in accordance with the PRC legal opinion and information provided by the Group are as follows:—

Certificate for the Use of State-owned Land Use Rights	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

## VALUATION CERTIFICATE

## Group II – Property leased to the Group in the PRC

Property	Description and tenure	Capital value in existing state as at 31 July 2010
4. Industrial complex at Shanmozhi Village Xinjie Town Xiaoshan District, Hangzhou Zhejiang Province, The PRC	<p>The property comprises an industrial complex with 3 workshops, an ancillary office building, a warehouse and 2 ancillary buildings erected on a parcel of land with a site area of approximately 16,732.83 sq m.</p> <p>The property has a total gross floor area of approximately 8,311.96 sq m which is used for industrial purposes.</p> <p>The property is currently leased by Hangzhou Xiaoshan Sanjiang Fine Chemicals Co., Ltd.* (杭州蕭山三江精細化工有限公司) (currently known as Hangzhou Haoming Investment Co., Ltd.* (杭州浩明投資有限公司)) to Hangzhou Sanjiang Textile Auxiliaries Co., Ltd.* (杭州三江印染助劑有限公司) (an indirect wholly-owned subsidiary of the Company).</p> <p>The property with building ownership certificate No. 112608 is currently leased to Hangzhou Sanjiang Textile Auxiliaries Co., Ltd.* for a term due to expire on 31 December 2020 at an annual rental of RMB800,000 for the first three years subject to a rent review every three-year period thereafter.</p> <p>The property with building ownership Textile Auxiliaries Co., Ltd certificate No. 112302 is currently leased to Hangzhou Sanjiang* for a term due to expire on 31 December 2020 at an annual rental of RMB400,000 for the first three years subject to a rent review for every three-year period thereafter.</p> <p>According to the PRC legal opinion, the lessor has obtained the building ownership certificates of the property and has the right to lease the property. The tenancy agreement is legal, valid and enforceable.</p>	No commercial value

All of our business operations are based in the PRC and we are required to comply with a range of laws and regulations concerning establishment of manufacturing facilities, production safety, hazardous chemicals and industrial products. The laws and regulations concerning our business and operations in the PRC mainly include the following:

- Interim Provisions for Promoting Industrial Restructuring (《促進產業結構調整暫行規定》)
- The Guideline Catalogue for Industrial Restructuring (2005 Version) (《產業結構調整指導目錄(2005年本)》);
- Notice on the Implementation of the Catalogue of Restricted Uses of Land (2006 Version) and the Catalogue of Prohibited Uses of Land (2006 Version) (《關於發佈實施〈限制用地項目目錄(2006年本)〉和〈禁止用地項目目錄(2006年本)〉的通知》);
- Notice on the Issuance of the Catalogue of Restricted Uses of Land (2006 Version Supplement) and the Catalogue of Prohibited Uses of Land (2006 Version Supplement) (《關於印發〈限制用地項目目錄(2006年本增補本)〉和〈禁止用地項目目錄(2006年本增補本)〉的通知》)
- Production Safety Law of the PRC (《中華人民共和國安全生產法》);
- Regulations on Safety Production Permit (《安全生產許可證條例》);
- Regulations on the Safety Administration of Hazardous Chemicals (《危險化學品安全管理條例》);
- Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》);
- Measures for the Administration of Hazardous Chemical Operation Licence (《危險化學品經營許可證管理辦法》);
- Measures for the Administration of Registration of Hazardous Chemicals (《危險化學品登記管理辦法》);
- Measures for Implementation of Safety Licensing for Hazardous Chemical Construction Projects (《危險化學品建設項目安全許可實驗辦法》);
- Regulations on the Administration of Production Licence for Industrial Products of the PRC (《中華人民共和國工業產品生產許可證管理條例》);
- Measures for Implementation of the Regulations on the Administration of Production Licence for Industrial Products of the PRC (《中華人民共和國工業產品生產許可證管理條例實施辦法》);
- Notice on the Implementation of Industrial Policies regarding the Production Permission for Industrial Products (《關於工業產品生產許可工作中嚴格執行國家產業政策有關問題的通知》);

- Regulations on the Import and Export Tariff of the PRC (《中華人民共和國進出口關稅條例》); and
- The 2007 Tariff Implementation Plan, 2008 Tariff Implementation Plan, 2009 Tariff Implementation Plan and 2010 Tariff Implementation Plan (《2007年關稅實施方案》, 《2008年關稅實施方案》, 《2009年關稅實施方案》及《2010年關稅實施方案》).

Certain important provisions of the aforesaid laws and regulations are set out as follows:

## **LAWS AND REGULATIONS IN RELATION TO ESTABLISHMENT OF ETHYLENE OXIDE MANUFACTURING FACILITIES**

### **Interim Provisions for Promoting Industrial Restructuring and the Guideline Catalogue for Industrial Restructuring (2005 Version)**

The Interim Provisions for Promoting Industrial Restructuring was promulgated by the State Council and became effective on 2 December 2005. The Industrial Restructuring Catalogue was promulgated by the NDRC and became effective on the even date.

According to the Interim Provisions for Promoting Industrial Restructuring, industries are classified into three categories, namely Encouraged, Restricted and Eliminated. The rest of the industries which are not listed in the Industrial Restructuring Catalogue but are in compliance with the relevant laws, regulations and state policies are recognised as Permitted category. Investment in the Encouraged industries are welcome and can enjoy certain preferential policies prescribed by the government authorities, while new investment in the Restricted industries and investment (no matter new or already made) in the Eliminated industries are prohibited. Under the Industrial Restructuring Catalogue, construction and operation of ethylene oxide manufacturing facilities with an annual capacity of less than 200,000 MT is classified into the Restricted category, which means new investment in the ethylene oxide manufacturing facilities is prohibited unless the annual capacity of such facilities reaches or exceeds 200,000 MT.

### **Notice on the Implementation of the Catalogue of Restricted Uses of Land (2006 version) and the Catalogue of Prohibited Uses of Land (2006 version) and the Supplements**

The Land Catalogue was jointly promulgated by the Ministry of Land and Resources of the PRC and the NDRC and became effective on 12 December 2006. The Notice on the Issuance of the Catalogue of Restricted Uses of Land (2006 Version Supplement) and the Catalogue of Prohibited Uses of Land (2006 Version Supplement) was promulgated by the Ministry of Land and Resources of the PRC and became effective on 10 November 2009.

According to the aforesaid notices, all levels of national land and resources administrative authorities as well as investment administrative authorities are not allowed to carry out relevant procedures for construction projects listed in categories 1 to 10 under the Catalogue of Restricted Uses of Land (2006 Version) as well as in the Catalogue of Prohibited Uses of Land (2006 Version and 2006 Version Supplement). The ethylene oxide construction projects with an annual capacity of less than 200,000 MT fall into category 4 of the Catalogue of Restricted Uses of Land (2006 Version), which limits ethylene oxide production enterprises to construct new ethylene oxide manufacturing facilities with an annual capacity of less than 200,000 MT.

**LAWS AND REGULATIONS IN RELATION TO SAFE PRODUCTION****Production Safety Law of the PRC**

The Production Safety Law of the PRC (the “Production Safety Law”) was promulgated by the SCNPC on 29 June 2002 and became effective on 1 November 2002.

The Production Safety Law was adopted to strengthen the supervision and administration of production safety, prevent and reduce production accidents, protect people’s life and property and promote economic development.

The Production Safety Law applies to enterprises engaged in production activities within the PRC and provides that enterprises engaged in production activities shall meet the production safety requirements prescribed by relevant laws, administrative regulations and national or industrial standards, failure of which will result in prohibition of engaging in production activities. Such enterprises are also required to strengthen the production safety management, establish the responsibility system for production safety, improve work conditions and ensure safe production.

The Production Safety Law in particular stipulates the responsibilities of the person in charge of the production safety, including the responsibilities to establish and improve the system of attributing responsibility for production safety, formulate the safe production and operation rules, ensure the effective investment in production safety areas, oversee and inspect production safety work and eliminate the potential danger of production accidents timely, formulate and execute the emergency rescue plans for production accidents, and report production accidents honestly and timely. If an enterprise fails to meet the requirements as provided by the Production Safety Law and other relevant laws, administrative regulations and national or industrial standards, it may be ordered to suspend business and rectify the violations. Failure to rectify the violations within a prescribed period of time may lead to shutdown of the enterprise and revocation of the relevant licences.

**Regulations on Safety Production Permit**

The Regulations on Safety Production Permit were promulgated by the State Council and became effective on 13 January 2004.

The Regulations on Safety Production Permit were adopted to strictly regulate the conditions for safe production, further strengthen the supervision and administration of safe production, prevent and reduce production accidents.

The Regulations on Safety Production Permit stipulate that hazardous chemical manufacturing enterprises shall obtain a safety production permit. Enterprises without the safety production permit are not allowed to engage in hazardous chemical production activities. The administrative department of work safety under the State Council is responsible for the issuance and administration of safety production permits for hazardous chemical production enterprises, while local work safety authorities at the provincial level are responsible for the issuance and administration of safety production permits for

enterprises not under the administration of the central government. The safety production permit shall be valid for 3 years. To obtain a safety production permit, an enterprise shall satisfy certain safety-related conditions, mainly including:

- (1) establishing the responsibility system for production safety, and formulating a whole set of safe production regulations and operating rules;
- (2) ensuring that the investment in safe production complies with the production safety requirements;
- (3) setting up administrative departments for production safety and employing full-time administrative personnel in charge of production safety;
- (4) ensuring that the operational staff completed the production safety education and training;
- (5) ensuring that the production premises, worksites, safety facilities, equipment and technologies comply with the requirements of the relevant production safety laws, regulations, standards and rules; and
- (6) conducting safety evaluation in accordance with the law.

If an enterprise violates the provisions of the Regulations on Safety Production Permit and commences production without obtaining the safety production permit or fails to renew the safety production permit upon its expiration, the relevant authorities may order it to suspend production, confiscate the illegal gains and impose a fine on the enterprise. If a criminal offense is committed, the offender may be subject to criminal liabilities.

## **LAWS AND REGULATIONS IN RELATION TO HAZARDOUS CHEMICALS**

### **Regulations on the Safety Administration of Hazardous Chemicals**

The Regulations on the Safety Administration of Hazardous Chemicals were promulgated by the State Council on 26 January 2002 and became effective on 15 March 2002.

The Regulations on the Safety Administration of Hazardous Chemicals were adopted to strengthen the safety control over hazardous chemicals, safeguard people's life and property and protect the environment.

The Regulations on the Safety Administration of Hazardous Chemicals prescribe that the production, operation, storage, transportation and usage of hazardous chemicals and disposal of disused hazardous chemicals within the PRC must comply with the provisions of the aforesaid regulations. Hazardous chemical production enterprises must apply to the relevant department of the State Council for the production licence of hazardous chemicals, failure of which will result in prohibition against commencing the production. Any entity or individual shall not be engaged in the sale and operation of hazardous chemicals without permission. Hazardous chemical production and storage enterprises as well as entities using highly toxic chemicals and other hazardous chemicals, the quantity of which constitutes major hazard sources shall register the hazardous chemicals with competent authorities.

If an enterprise violates the Regulations on the Safety Administration of Hazardous Chemicals, the relevant authorities may order it to close down or to suspend production, and order it to destroy the hazardous chemicals. Any illegal gains may be confiscated and a fine may be imposed on the enterprise by relevant authorities. If a criminal offense is committed, the responsible person may be subject to criminal liabilities.

### **Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises**

The Measures for Implementation of Safety Production Permit of Hazardous Chemical Production Enterprises were formulated according to the Regulations on Safety Production Permit, and were promulgated by the State Administration of Work Safety of the PRC and State Administration of Coal Mine Safety of the PRC and became effective on 17 May 2004.

According to the aforesaid measures, hazardous chemical production enterprises must obtain the safety production permit. The local work safety authorities at the provincial level are responsible for the issuance and administration of safety production permits for local hazardous chemical production enterprises.

If a hazardous chemical production enterprise commences production without obtaining the safety production permit, the relevant authorities may order it to suspend production, confiscate the illegal gains and impose a fine on the enterprise. If a criminal offense is committed, the offender may be subject to criminal liabilities.

### **Measures for the Administration of Hazardous Chemical Operation Licence**

The Measures for the Administration of Hazardous Chemical Operation Licence were promulgated by the former State Economic and Trade Commission on 8 October 2002 and became effective on 15 November 2002.

The Measures for the Administration of Hazardous Chemical Operation Licence were adopted to strengthen the safety administration of hazardous chemicals, regulate the operation and sale of hazardous chemicals and protect people's life and property.

The Measures for the Administration of Hazardous Chemical Operation Licence establishes a licensing system for the operation and sale of hazardous chemicals. Entities engaged in the operation and sale of hazardous chemicals shall obtain the hazardous chemical operation licence pursuant to the aforesaid measures before registration with the administrative bureaus for industry and commerce. No entity or individual may operate or sell hazardous chemicals without obtaining the hazardous chemical operation licence and registering with the administrative bureau for industry and commerce. In the event that an entity plans to reconstruct or expand its operation or storage premises or move to another premises, or expand its business scope, it shall apply for a new hazardous chemical operation licence in advance. The hazardous chemical operation licence shall be valid for 3 years.

If an enterprise is engaged in the operation and sale of hazardous chemicals without obtaining the hazardous chemical operation licence, the relevant authorities may order it to close down or to suspend production, and order it to destroy the hazardous chemicals. Any illegal gains may be confiscated and a fine may be imposed on the enterprise by relevant authorities. If a criminal offense is constituted, the responsible person shall be subject to criminal liabilities.

#### **Measures for the Administration of Registration of Hazardous Chemicals**

The Measures for the Administration of Registration of Hazardous Chemicals were promulgated by the former State Economic and Trade Commission on 8 October 2002 and became effective on 15 November 2002.

The Measures for the Administration of Registration of Hazardous Chemicals were adopted to strengthen the safety control over hazardous chemicals, prevent chemical accidents and provide technical and information support for emergency rescue.

According to the aforesaid measures, hazardous chemical production and storage enterprises and entities using highly toxic chemicals and other hazardous chemicals, the quantity of which constitutes major hazard sources shall register the hazardous chemicals with competent authorities. Registration offices are established at the provincial level to take care of the detailed registration work and technical management for hazardous chemicals within their respective jurisdiction. Entities who fail to register with the relevant authorities may be ordered to rectify the violations and be imposed a fine.

#### **Measures for Implementation of Safety Licensing for Hazardous Chemical Construction Projects**

The Measures for Implementation of Safety Licensing for Hazardous Chemical Construction Projects were promulgated by the State Administration of Work Safety on 2 September 2006 and became effective on 1 October 2006.

According to the aforesaid measures, construction, reconstruction and expansion of the hazardous chemical production and storage installations and facilities as well as the chemical production installations and facilities with hazardous chemicals concomitant within the PRC must obtain the safety permission, otherwise, such installations and facilities shall not be constructed or put into production or use. The expression “safety licensing for construction projects” refers to the safety examination before the commencement (examination, approval and filing) of the construction projects, the examination of the design of safety facilities for construction projects as well as the final examination and acceptance thereof upon completion.

If an enterprise violates the aforesaid measures, the relevant authorities may order it to close down or to suspend production, and order it to destroy the hazardous chemicals. Any illegal gains may be confiscated and a fine may be imposed on the enterprise by relevant authorities. If a criminal offense is committed, the responsible person may be subject to criminal liabilities.

**LAWS AND REGULATIONS IN RELATION TO INDUSTRIAL PRODUCTS****Regulations on the Administration of Production Licence for Industrial Products of the PRC and the Implementation Measures**

The Regulations on the Administration of Production Licence for Industrial Products of the PRC were promulgated by the State Council on 9 July 2005 and became effective on 1 September 2005. The Measures for Implementation of the Regulations on the Administration of Production Licence for Industrial Products were promulgated by the GAQSIQ on 15 September 2005 and became effective on 1 November 2005.

Pursuant to the aforesaid regulations and implementation measures, enterprises engaged in hazardous chemical production shall obtain the production licence for industrial products. Such licence shall be valid for 5 years. An enterprise shall meet the following requirements for obtaining a production licence for industrial products:

- (1) having a business licence;
- (2) having professional technicians qualified for the production of its products;
- (3) having suitable production conditions and means of inspection and quarantine for its products;
- (4) having suitable technical documents and technique documents for its products;
- (5) having sound and effective quality control system and responsibility system;
- (6) the products complying with the relevant national standards, industrial standards and requirements for ensuring personal health and personal and property safety; and
- (7) complying with the provisions of state industrial policies, without occurrence of the following matters which are expressly eliminated and prohibited from investment and construction by the government: outdated technique, high energy consumption, environment pollution and waste of resources.

The GAQSIQ is responsible for the management of the production licence for industrial products nationwide, and local bureaus of quality supervision, inspection and quarantine at provincial level may be responsible for the issuance of production licences for some products. According to the Announcement Concerning the Issuance of Production Licence of 12 Kinds of Products Such as Electric Wires and Cables by Provincial Bureaus of Quality Supervision, Inspection and Quarantine promulgated by the GAQSIQ on 20 February 2009, the production licence for hazardous chemicals (chemical reagent, dissolved acetylene, compressed and liquefied gas, inorganic products of hazardous chemicals (category I), sulphuric acid and organic products of hazardous chemicals (category I)) shall be issued by the local bureaus of quality supervision, inspection and quarantine departments at provincial level as of 1 May 2009.

If an enterprise violates the aforesaid regulations and implementation measures, the relevant authorities may order it to rectify the violations within a prescribed period of time or to suspend production. The relevant authorities may also confiscate the illegal products, revoke the production licence, confiscate the illegal income and impose a fine on the enterprise. If a criminal offense is committed, the responsible person may be subject to criminal liabilities.

**Notice on the Implementation of Industrial Policies regarding the Production Permission for Industrial Products**

The Production Licence Notice was jointly promulgated by the GAQSIQ and the NDRC and became effective on 9 November 2006.

According to the Production Licence Notice, the grant of production permission shall comply with the industrial policies prescribed in the Industrial Restructuring Catalogue. The National Production Licence for Industrial Products shall not be issued to the enterprises making new investment in the industries which are listed in the Restricted category under the Industrial Restructuring Catalogue. As a result, ethylene oxide production enterprises with an annual capacity of less than 200,000 MT cannot obtain the National Production Licence for Industrial Products for the production of ethylene oxide in the PRC.

**LAWS AND REGULATIONS IN RELATION TO TARIFF****Regulations on the Import and Export Tariff of the PRC**

The Regulations on the Import and Export Tariff of the PRC were promulgated by the State Council on 23 November 2003 and became effective on 1 January 2004. According to the regulations, the State Council is responsible for formulating the tariff codes and tariff rates for the goods import into or export from the PRC. The Tariff Commission of the State Council, established by the State Council, is responsible for the adjustment and explanation of the tariff codes and rates. The Tariff Commission of the State Council is also entitled to select goods which are eligible for provisional tariff rates, as well as determine the corresponding provisional tariff rates and the time limit for implementation of such rates.

**The 2007 Tariff Implementation Plan, 2008 Tariff Implementation Plan, 2009 Tariff Implementation Plan and 2010 Tariff Implementation Plan**

The Tariff Implementation Plans in 2007 to 2010 were promulgated by the Tariff Commission of the State Council and became effective on 1 January of the respective years. According to the Tariff Implementation Plans in 2007, 2008 and 2009, although the preferential national tariff rate for the imported ethylene was set at 2% in the respective years, a provisional tariff rate of 0% was implemented which means the effective tariff rate applicable to the imported ethylene was 0% in 2007 to 2009 rather than 2%. However, in 2010, according to the 2010 Tariff Implementation Plan, the preferential national tariff rate for the imported ethylene remains at 2% but no provisional tariff rate is implemented. Therefore, the effective tariff rate applicable to the ethylene imported by our Group is 2% in 2010. The tariff rate may be adjusted by the Tariff Commission of the State Council from time to time.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

## **1.      MEMORANDUM OF ASSOCIATION**

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" specified in Appendix VIII to this prospectus. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

## **2.      ARTICLES OF ASSOCIATION**

The articles of association of the Company (the "Articles") were adopted on 24 August 2010. The following is a summary of certain provisions of the Articles.

### **(a)      Directors**

#### *(i)      Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

#### *(ii)      Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

*(iii) Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

*(v) Financial assistance to purchase shares of the Company or its holdings company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

*(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his associate(s) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his associate(s) has himself/themselves guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director or his associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director or his associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any company in which he or his associate(s) is/are interested directly or indirectly whether as an officer or an executive or a member, other than a company in which the Director or his associates owns five per cent. or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through the Company;
- (gg) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his associate(s) may benefit; and
- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to the Articles.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

*(vii) Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

*(viii) Retirement, appointment and removal*

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

*(ix) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

*(x) Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

*(xi) Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

**(b) Alterations to constitutive documents**

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

**(c) Alterations of capital**

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

**(d) Variation of rights of existing shares or classes of shares**

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

**(e) Special resolutions – majority required**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days has been given.

**(f) Voting rights**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation.

**(g) Requirements for annual general meetings**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

**(h) Accounts and audit**

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

**(i) Notices of meetings and business to be conducted thereat**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

**(j) Transfer of shares**

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

## **APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reason(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

### **(k)      Power for the Company to purchase its own shares**

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

### **(l)      Power of any subsidiary to own securities in the Company**

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

### **(m)      Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

## **APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW**

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

### **(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

**(o)      Corporate representatives**

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

**(p)      Calls on shares and forfeiture of shares**

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

**(q)      Inspection of register of members**

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 32) of the laws of Hong Kong.

**(r)      Inspection of register of Directors**

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

**(s)      Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

**(t)      Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

**(u)      Procedures on liquidation**

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

**(v)      Untraceable members**

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

**(w)      Stock**

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

**(x) Other provisions**

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

**3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION**

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days' notice and not less than ten (10) clear business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

**4. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law;
- (iv) in writing off
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (v) in providing for the premium payable on redemption of any shares or of any debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

**(b) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

**(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

its debts as they fall due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

**(d)      Dividends and distributions**

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

**(e)      Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of our affairs in the future, (b) an order requiring us to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in our name and on our behalf by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders by other shareholders or by ourselves and, in the case of a purchase by ourselves, a reduction of the company's capital accordingly.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

**(f)      Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(g)      Accounting and auditing requirements**

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(h)      Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(i)      Taxation**

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

**(j)      Stamp duty**

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

**(k)      Inspection of corporate records**

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

<b>APPENDIX VI      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW</b>
---

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

**(I)      Winding up**

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

**FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 30 January 2009.

Our Company was registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company on 30 August 2010 and its principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance is at 40th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong. In compliance with the requirements of the Companies Ordinance, Mr. Yip Ngai Hang of Flat E, 16th Floor, Tower 10, Park Avenue, 18 Hoi Ting Road, Kowloon, Hong Kong has been appointed as the agent for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain aspects of Companies Law is set out in Appendix VI to this prospectus.

**2. Changes in share capital of our Company****(A) Increase in and cancellation of authorised share capital**

- (1) As at the date of incorporation of our Company on 30 January 2009, the authorised share capital of our Company was US\$50,000 divided into 50,000 shares having a par value of US\$1 each.
- (2) On 28 September 2009, the authorised share capital of our Company was increased to US\$150,000 by creation of further 100,000 shares pursuant to a resolution passed by the then sole Shareholder.
- (3) On 24 August 2010, written resolutions of our Shareholders were passed to approve (i) an increase in the authorised share capital in the amount of HK\$500,000,000 by the creation of 5,000,000,000 Shares, (ii) the issue of 136,470 Shares to the then Shareholders in proportion of one Share for each share of US\$1.00 held, (iii) the repurchase of the existing 136,470 shares of US\$1.00 each at par and (iv) the diminution of the authorised but unissued share capital of our Company by the cancellation of 150,000 authorised but unissued shares of US\$1.00 each.
- (4) Immediately following completion of the Global Offering and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and upon the exercise of the Over-allotment Option, the authorised share capital of our Company will be HK\$500,000,000 divided into 5,000,000,000 Shares, of which 1,009,303,000 Shares will be issued fully paid or credited as fully paid, and 3,990,697,000 Shares will remain unissued.

Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein and in paragraphs headed “Resolutions in writing of our Shareholders passed on 24 August 2010” and “Group reorganisation” of this appendix, there has been no alteration in the share capital of our Company since its incorporation.

**(B) Founder shares**

Our Company has no founder shares, management shares or deferred shares.

**3. Resolutions in writing of our Shareholders passed on 24 August 2010**

Written resolutions were passed by our Shareholders on 24 August 2010 pursuant to which, among other matters:

- (A) our Company approved and adopted the Articles of Association;
- (B) our Company approved:
  - (1) an increase in the authorised share capital in the amount of HK\$500,000,000 by the creation of 5,000,000,000 Shares;
  - (2) the issue of 136,470 Shares to the then Shareholders in proportion of one Share for each share of US\$1.00 held;
  - (3) the repurchase of the existing 136,470 shares of US\$1.00 each at par; and
  - (4) the diminution of the authorised but unissued share capital of our Company by the cancellation of 150,000 authorised but unissued shares of US\$1.00 each;
- (C) conditional on (a) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; and (b) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
  - (1) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;

- (2) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
- (3) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise HK\$75,674,853.0 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 756,748,530 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company immediately after (i) completion of the redemption of Preference Shares by Sure Capital and the issue and allotment of new Shares to the Preference Shares Investors; and (ii) the transfer of 1,080 Shares to the Ordinary Shares Investors by Sure Capital in accordance with the anti-dilution provisions contained in the agreement for subscription of ordinary shares in our Company; but immediately before the issue and allotment of new Shares to subscribers pursuant to the Global Offering (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;
- (4) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (a) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and (b) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (6) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

- (5) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (6) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (5) above; and
- (D) the form and substance of each of the service agreements made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our independent non-executive Directors with our Company were approved.

#### 4. Group reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group’s structure in preparation for the listing of the Shares on the Stock Exchange which involved the following:

- (A) On 30 January 2009, our Company was incorporated in the Cayman Islands, with one Old Share of US\$1.00 subscribed by an Independent Third Party. On 4 August 2009, such subscriber Old Share was transferred to Sure Capital at par. On the same day, our Company allotted and issued 9,999 Old Shares of US\$1.00 each to Sure Capital at par;
- (B) On 1 September 2009, Capitol International allotted and issued an aggregate of 990,000 shares of HK\$1 each in Capitol International to our Company at par;
- (C) On 28 September 2009, our Company acquired an aggregate of 10,000 shares of HK\$1 each in Capitol International from Mr. Guan and Ms. Han in consideration of and in exchange for which our Company allotted and issued 114,080 Old Shares to Sure Capital at the direction of Mr. Guan and Ms. Han;
- (D) Pursuant to a share transfer agreement dated 16 November 2009 and entered into between Capitol International as purchaser and Hangzhou Haoming as vendor, Capitol International acquired 41.81% shareholding interest in Sanjiang Chemical from Hangzhou Haoming for a consideration of RMB94,120,258.39. Such consideration was determined with reference to the amount of Hangzhou Haoming’s total investment in Sanjiang Chemical in the sum of RMB94,120,258.39 (which is for 41.81% shareholding interest in Sanjiang Chemical). The filings of such change in equity-holder in Sanjiang Chemical with the relevant administration of industry and commerce were effected on 27 November 2009;

- (E) Pursuant to a share transfer agreement dated 17 November 2009 and entered into between Capitol International as purchaser and Tengfei Gongmao as vendor, Capitol International acquired 4.44% shareholding interest in Sanjiang Chemical from Tengfei Gongmao for a consideration of RMB9,995,071.69. Such consideration was determined with reference to the pro rata amount of Hangzhou Haoming's total investment in Sanjiang Chemical in the sum of RMB94,120,258.39 (which is for 41.81% shareholding interest in Sanjiang Chemical) as proportionate to Tengfei Gongmao's 4.44% shareholding interest in Sanjiang Chemical. The filings of such change in equity-holder in Sanjiang Chemical with the relevant administration of industry and commerce were effected on 27 November 2009;
- (F) On 8 December 2009, pursuant to an ordinary shares subscription agreement dated 24 November 2009 and entered into between Sure Capital, 北京博馬凱睿投資有限公司 (Beijing Boma Carret Investment Co., Ltd.\*) and Galaxy Century International Investment Limited (銀河世紀國際投資有限公司) and a deed of confirmation dated 7 December 2009 and executed by and among Sure Capital, our Company (under its previous name of Full Wealth Limited (滿裕有限公司)), Capitol International, 北京博馬凱睿投資有限公司 (Beijing Boma Carret Investment Co., Ltd.\*) and Mr. Guan in favour of the Ordinary Shares Investors, our Company allotted and issued an aggregate of 7,920 Old Shares to the Ordinary Shares Investors for an aggregate consideration of US\$10 million, as to (1) 924 Old Shares to CITIC International Assets Management Limited (中信國際資產管理有限公司); (2) 2,376 Old Shares to Creation One International Limited (創一國際有限公司); (3) 1,821 Old Shares to Chemwin Limited; (4) 528 Shares to Rich Honour Holdings Limited (諾信控股有限公司); and (5) 2,271 Old Shares to BOCOM Holdings;
- (G) Pursuant to a share transfer agreement dated 13 December 2009 and entered into between Jianghao Investment as purchaser and Sanjiang Chemical as vendor, Sanjiang Chemical disposed of its entire 100% shareholding interest in Jianghao Property to Jianghao Investment for a consideration of RMB50 million. Such consideration was determined with reference to the registered capital of Jianghao Property. The filings of such change in equity-holder in Jianghao Property with the relevant administration of industry and commerce were effected on 24 December 2009;
- (H) On 8 January 2010, pursuant to certain agreement between Sure Capital and Boma Carret China Investment Company Limited (博馬凱睿中國投資有限公司), as confirmed by a confirmatory deed dated 5 May 2010 and executed by and between our Company and Boma Carret China Investment Company Limited (as authorised by each of Global Fortune Muster Investment Ltd. (祥聚投資有限公司), Hanbest Investment Limited (凱佳投資有限公司), Strength High Group Limited, Million Wisdom International Limited (萬聰國際有限公司) and Ever Raise International Limited (常展國際有限公司)), Sure Capital transferred an aggregate of 17,820 Old Shares to Global Fortune Muster Investment Ltd., Hanbest Investment Limited, Strength High Group Limited, Million Wisdom International Limited and Ever Raise International Limited as designated by Boma Carret China Investment Company Limited for an aggregate consideration of US\$22.5 million (based on a consideration of US\$1,262.626 per Old Share, which was determined with reference to the consideration per Old Share payable by the Ordinary Shares Investors for their Old Shares of approximately US\$1,262.626 per Old Share), as to (1) 1,320 Old Shares to Global Fortune Muster Investment Ltd.; (2) 1,320 Old Shares to Hanbest Investment Limited; (3) 3,960 Old Shares to Strength High Group Limited; (4) 4,884 Old Shares to Million Wisdom International Limited; and (5) 6,336 Old Shares to Ever Raise International Limited;

- (I) On 8 January 2010, pursuant to certain agreement between Sure Capital and Gold Dynamic Asia Limited (金動力亞洲有限公司), as confirmed by a confirmatory deed dated 5 May 2010 and executed by and between our Company and Gold Dynamic Asia Limited, Sure Capital transferred 6,072 Old Shares to Gold Dynamic Asia Limited for a total consideration of US\$7,666,666.67 (based on a consideration of US\$1,262.626 per Old Share, which was determined with reference to the consideration per Old Share payable by the Ordinary Shares Investors for their Old Shares of approximately US\$1,262.626 per Old Share);
- (J) On 8 January 2010, pursuant to certain agreement between Sure Capital and Supra Grade Holdings Limited (越級控股有限公司), as confirmed by a confirmatory deed dated 5 May 2010 and executed by and between our Company and Supra Grade Holdings Limited, Sure Capital transferred 5,940 Old Shares to Supra Grade Holdings Limited for a total consideration of US\$7,500,000.00 (based on a consideration of US\$1,262.626 per Old Share, which was determined with reference to the consideration per Old Share payable by the Ordinary Shares Investors for their Old Shares of approximately US\$1,262.626 per Old Share);
- (K) Pursuant to a share transfer agreement dated 23 December 2009 and entered into between Sanjiang Chemical as purchaser and Hangzhou Haoming as vendor, Sanjiang Chemical acquired in aggregate 3.51% shareholding interest in Yongming Petrochemical from Hangzhou Haoming for a consideration of RMB11,518,262. Such consideration was determined with reference to the net asset value of Yongming Petrochemical as at 30 November 2009. The filings of such change in equity-holder in Yongming Petrochemical with the relevant administration of industry and commerce were effected on 13 January 2010;
- (L) Pursuant to a share transfer agreement dated 21 December 2009, and entered into between Yongming Petrochemical as purchaser and Hangzhou Haoming as vendor, Yongming Petrochemical acquired the entire 100% shareholding interest in Sanjiang Trading from Hangzhou Haoming for a consideration of RMB5,000,000. Such consideration was determined with reference to the total registered capital of Sanjiang Trading. The filings of such change in equity-holder in Sanjiang Trading with the relevant administration of industry and commerce were effected on 15 January 2010;
- (M) On 1 April 2010, Hangzhou Sanjiang was established to engage in the surfactant manufacture and sale business and ethylene oxide trading business acquired from Hangzhou Haoming;
- (N) Pursuant to an asset purchase agreement dated 1 April 2010 and entered into between Hangzhou Sanjiang as purchaser and Hangzhou Haoming as vendor, Hangzhou Sanjiang acquired the inventories and equipment for operating the surfactant manufacturing, and sale business and ethylene oxide trading business from Hangzhou Haoming for a consideration of RMB6,369,852.08. Such consideration was determined with reference to the net book value of such inventory and equipment as at 31 March 2010;

- (O) Pursuant to a debts and receivables assignment dated 1 April 2010 and entered into between Hangzhou Haoming as assignor and Hangzhou Sanjiang as assignee, Hangzhou Haoming has assigned all its rights and liabilities for its trade debts and receivables (being a net liability of RMB874,458.80) in relation to its surfactant manufacturing and trading business and ethylene oxide trading business as at 31 March 2010 to Hangzhou Sanjiang for a consideration of RMB874,458.80 payable by Hangzhou Haoming to Hangzhou Sanjiang. Such consideration was determined with reference to the net book value of such trade debts and receivables as at 31 March 2010;
- (P) Pursuant to a share subscription agreement dated 6 May 2010 and entered into between Sure Capital and our Company, Sure Capital subscribed for an aggregate of 4,470 Old Shares of a par value of US\$1 each at par;
- (Q) Pursuant to a share transfer agreement dated 6 May 2010 and entered into between Sure Capital as vendor and Pasicue as purchaser, Sure Capital transferred an aggregate of 3,888 Old Shares to Pasicue for a consideration of US\$1,464,301.94 (based on a consideration of US\$376.62 per Old Share, which was determined after arm's length commercial negotiation between Sure Capital and Pasicue);
- (R) On 16 May 2010, pursuant to a convertible preference shares subscription and shareholders' agreement dated 8 September 2009 and entered into by and among Sure Capital, BOCOM Holdings, our Company, Capitol International and Mr. Guan, as supplemented and amended by (1) a supplemental agreement dated 27 November 2009 and entered into by and among the same parties; (2) a consent letter dated 27 November 2009 and entered into by and among the same parties; and (3) a supplemental agreement dated 8 April 2010 and entered into by and among the same parties, the Preference Shares Investors subscribed for an aggregate of 2,000 preference shares of US\$10,000 each in Sure Capital, which are convertible into Shares at the ratio of 2,000 preference shares in Sure Capital to 18,000 Shares (representing approximately 11.65% of the issued share capital of our Company immediately prior to the completion of the Global Offering and the Capitalisation Issue), for an aggregate consideration of US\$20 million as to (1) 714 preference shares to BOCOM Holdings; (2) 460 preference shares to Chemwin Limited; (3) 400 preference shares to UVM Venture Investments Limited; (4) 233 preference shares to CITIC International Assets Management Limited (中信國際資產管理有限公司); (5) 133 preference shares to Rich Honour Holdings Limited (諾信控股有限公司); and (6) 60 preference shares to Central Harvest Holdings Company Limited (滙盛控股有限公司). All such preference shares in Sure Capital will be converted into ordinary Shares prior to Listing;
- (S) Immediately prior to completion of the Global Offering and the Capitalisation Issue, the 2,000 preference shares of US\$10,000 each in Sure Capital as held by the Preference Shares Investors will be redeemed and subsequently cancelled (if not already redeemed and cancelled before then), in consideration of and in exchange for which Sure Capital will procure our Company to allot and issue to the Preference Shares Investors in aggregate 18,000 Shares, as to (1) 6,419 Shares to BOCOM Holdings; (2) 4,141 Shares to Chemwin Limited; (3) 3,600 Shares to UVM Venture Investments Limited; (4) 2,100 Shares to CITIC International Assets Management Limited (中信國際資產管理有限公司); (5) 1,200 Shares to Rich Honour Holdings Limited (諾信控股有限公司); and (6) 540 Shares to Central Harvest Holdings Company Limited (滙盛控股有限公司); and

- (T) In accordance with the anti-dilution provisions in favour of the Ordinary Shares Investors set out in the ordinary shares subscription agreement referred to under paragraph (F) above, Sure Capital will upon completion of the issue and allotment of Shares set out in paragraph (S) above transfer in aggregate 1,080 Shares to the Ordinary Shares Investors, as to (1) 310 Shares to BOCOM Holdings; (2) 324 Shares to Creation One International Limited (創一國際有限公司); (3) 248 Shares to Chemwin Limited; (4) 126 Shares to CITIC International Assets Management Limited (中信國際資產管理有限公司); and (5) 72 Shares to Rich Honour Holdings Limited (諾信控股有限公司).

Upon completion of the Reorganisation, our Company became the holding company of our Group.

## 5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the accountants' report set out in Appendix I to this prospectus.

### (A) *Capitol International*

On 1 September 2009, the issued share capital of Capitol International was increased from HK\$10,000 divided into 10,000 shares of HK\$1 each to HK\$1 million divided into 1 million shares of HK\$1 each.

### (B) *Yongming Petrochemical*

On 10 July 2009, the registered capital of Yongming Petrochemical was increased from US\$10.8 million to US\$22.8 million and the total investment amount in Yongming Petrochemical was increased from US\$27 million to US\$55 million.

Save as disclosed above and in paragraph 4 of this Appendix, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

## 6. Further information about our Group's PRC establishment

Our Group has interest in the registered capital of (A) Sanjiang Chemical; (B) Yongming Petrochemical; (C) Sanjiang Trading; (D) Guanlang; (E) Hangzhou Sanjiang; and (F) Sanjiang Honam. A summary of the corporate information of each of these companies as of the Latest Practicable Date is set out as follows:

### (A) *Sanjiang Chemical*

- (i) Name of the enterprise : 三江化工有限公司 (Sanjiang Chemical Co., Ltd.)
- (ii) Date of establishment : 9 December 2003

- (iii) Registered address : 嘉興市乍浦開發區平海路西側 (The west side of Pinghai Road, Zhapu Development Zone, Jiaxing City)
- (iv) Economic nature : Wholly-foreign owned company
- (v) Registered owner : Capitol International
- (vi) Total investment amount : US\$49,950,000
- (vii) Registered capital : US\$22,225,000 which has been fully paid
- (viii) Attributable interest to our Group : 100%
- (ix) Term of operation : 9 December 2003 to 8 December 2053
- (x) Scope of business : Production and sale of ethylene oxide, ethylene glycol, liquefied nitrogen, liquefied oxygen, liquefied argon, liquefied carbon dioxide (produced and dealt in pursuant to the Certificate of Approval for Production and Storage of Dangerous Chemicals), surfactants, (except dangerous chemicals)

**(B) *Yongming Petrochemical***

- (i) Name of the enterprise : 嘉興永明石化有限公司 (Jiaxing Yongming Petrochemical Co., Ltd.)
- (ii) Date of establishment : 9 December 2003
- (iii) Registered address : 嘉興市乍浦開發區平海路西側 (The west side of Pinghai Road, Zhapu Development Zone, Jiaxing City)
- (iv) Economic nature : Sino-foreign joint venture company
- (v) Registered owner : Capitol International (as to 43.86% of the registered capital)  
  
Sanjiang Chemical (as to 56.14% of the registered capital)
- (vi) Total investment amount : US\$55,000,000

- (vii) Registered capital : US\$22,800,000 which has been fully paid
- (viii) Attributable interest to our Group : 100%
- (ix) Term of operation : 9 December 2003 to 8 December 2053
- (x) Scope of business : Production and sale of ethylene oxide, ethylene glycol, liquefied nitrogen, liquefied oxygen, liquefied argon, auxiliary agents for textile and chemical fibre drawnwork, oil agents and dyes (except dangerous chemicals)

**(C) Sanjiang Trading**

- (i) Name of the enterprise : 嘉興市三江化工貿易有限公司 (Jiaxing City Sanjiang Chemical Trading Co., Ltd.)
- (ii) Date of establishment : 29 October 2004
- (iii) Registered address : 嘉興港區乍浦開發區平海路西側 (嘉興三江化工有限公司內) (The west side of Pinghai Road, Zhapu Development Zone, Port District, Jiaxing (inside Sanjiang Chemical Co., Ltd.))
- (iv) Economic nature : Limited liability company
- (v) Registered owner : Yongming Petrochemical
- (vi) Registered capital : RMB5,000,000 which has been fully paid
- (vii) Attributable interest to our Group : 100%
- (viii) Term of operation : 29 October 2004 to 28 October 2024
- (ix) Scope of business : Items operated with permission: Wholesale (direct sale) of ethylene oxide, ethylene (Dangerous Chemical Operation Licence valid until 17 October 2010); Ordinary items: sale of chemical products (such business scope shall not include those items which are prohibited by law, or restricted from operation by law or required by law to obtain permits before operation).

**(D) *Guanlang***

- (i) Name of the enterprise : 嘉興市港區工業管廊有限公司 (Jiaxing Port Area Industrial Guanlang Co., Ltd.)
- (ii) Date of establishment : 29 September 2005
- (iii) Registered address : 嘉興港區乍浦開發區平海路西側 (The west side of Pinghai Road, Zhapu Development Zone, Port District, Jiaxing)
- (iv) Economic nature : Limited liability company
- (v) Registered owner : Sanjiang Chemical (as to approximately 83.85% of the registered capital)  
Zhapu Construction (as to approximately 16.15% of the registered capital)
- (vi) Registered capital : RMB13,000,000 which has been fully paid
- (vii) Attributable interest to our Group : 83.85%
- (viii) Term of operation : 29 September 2005 to 28 September 2025
- (ix) Scope of business : Items operated with permission: nil; ordinary items: Construction, management and operation of pipeline structural steel truss and investment in, development of and operation of municipal construction projects in the chemical industry park of the Port District of Jiaxing (such business scope shall not include those items which are prohibited by law, or restricted from operation by law, or required by law to obtain permits before operation)

**(E) *Hangzhou Sanjiang:***

- (i) Name of the enterprise : 杭州三江印染助劑有限公司 (Hangzhou Sanjiang Textile Auxiliaries Co., Ltd.)
- (ii) Date of establishment : 1 April 2010
- (iii) Registered address : 蕭山區新街鎮山末址村 (Shanmozhi Village, Xinjie Town, Xiaoshan District, Hangzhou)

- (iv) Economic nature : Limited liability company
- (v) Registered owner : Sanjiang Chemical
- (vi) Registered capital : RMB5,000,000 which has been fully paid
- (vii) Attributable interest to our Group : 100%
- (viii) Term of operation : 1 April 2010 to 31 March 2060
- (ix) Scope of business : Items operated with permission: nil; Ordinary items: Manufacturing of AEO (Sodium Alcohol Ether Sulphate), Peregol O (Sodium Alcohol Ether Sulphate), NP (Sodium Nonylphenol Polyoxyethylene Ether Sulphate) (such business scope shall not include those items which are prohibited by law, or restricted from operation by law or required by law to obtain permits before operation).

**(F) Sanjiang Honam:**

- (i) Name of the enterprise : Sanjiang Honam Chemical Co., Ltd. (三江湖石化有限公司)
- (ii) Date of establishment : 11 May 2010
- (iii) Registered address : 嘉興市乍浦開發區平海路西側 (the west side of Pinghai Road, Zhapu Development Zone, Jiaying City)
- (iv) Economic nature : Sino-foreign joint venture company
- (v) Registered owner : Sanjiang Chemical (as to 50% of the registered capital)  
  
Honam Petrochemical Corp. (湖南石油化學株式會社) (as to 50% of the registered capital)
- (vi) Registered capital : US\$12,000,000 of which US\$2,399,858.30 has been paid
- (vii) Attributable interest to our Group : 50%
- (viii) Term of operation : 11 May 2010 to 10 May 2060
- (ix) Scope of business : Manufacture of ethylene oxide

**7. Repurchase by our Company of its own securities**

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

**(A) Shareholders' approval**

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to a resolution in writing passed by our Shareholders on 24 August 2010, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

**(B) Source of funds**

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Cayman Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by the Articles of Association and subject to the provisions of the Cayman Companies Law, out of capital.

**(C) Reasons for repurchases**

Our Directors believe that it is in the best interest of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

**(D) Funding of repurchases**

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 1,009,303,000 Shares in issue upon the Listing, excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, would result in up to 100,930,300 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

**(E) General**

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

**FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY****8. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (A) two sets of the instrument of transfer and bought and sold notes, all dated 28 September 2009, and both entered into by our Company (under its previous name of Full Wealth Limited (滿裕有限公司)) as transferee, and by Mr. Guan and Ms. Han respectively as transferor, pursuant to which our Company acquired an aggregate of 10,000 shares in Capitol International from Mr. Guan and Ms. Han in consideration of and in exchange for our Company's allotment and issue of in aggregate 114,080 Old Shares;
- (B) a convertible preference shares subscription and shareholders' agreement dated 8 September 2009 and entered into by and among Sure Capital, BOCOM Holdings, our Company (under its previous name of Full Wealth Limited (滿裕有限公司)), Capitol International and Mr. Guan, as supplemented and amended by (1) a supplemental agreement dated 27 November 2009 and entered into by and among the same parties (as for our Company, under its previous name of Full Wealth Limited (滿裕有限公司)); (2) a consent letter dated 27 November 2009 and entered into by and among the same parties (as for our Company, under its previous name of Full Wealth Limited (滿裕有限公司)); and (3) a supplemental agreement dated 8 April 2010 and entered into by and among the same parties, pursuant to which Sure Capital agreed to allot and issue, and BOCOM Holdings agreed to subscribe for (by itself, or by designating and procuring such other party(ies) to subscribe for, or by itself in conjunction with such other party(ies) as designated and procured by it), an aggregate of 2,000 preference shares of US\$10,000 each in the issued share capital of Sure Capital, which are convertible into Shares at the ratio of 2,000 preference shares in Sure Capital to 18,000 Shares;
- (C) a share transfer agreement dated 16 November 2009 and entered into between Capitol International as purchaser and Hangzhou Haoming (under its previous name of 杭州蕭山三江精細化工有限公司 (Hangzhou Xiaoshan Sanjiang Fine Chemicals Co., Ltd.\*)) as vendor, pursuant to which Capitol International acquired 41.81% shareholding interest in Sanjiang Chemical from Hangzhou Haoming for a consideration of RMB94,120,258.39;
- (D) a share transfer agreement dated 16 November 2009 and entered into between Capitol International as purchaser and Tengfei Gongmao as vendor, pursuant to which Capitol International acquired 4.44% shareholding interest in Sanjiang Chemical from Tengfei Gongmao for a consideration of RMB9,995,071.69;
- (E) a deed of charge dated 27 November 2009 and executed by our Company (under its previous name of Full Wealth Limited (滿裕有限公司)) in favour of BOCOM Holdings, pursuant to which our Company, by way of a first fixed charge, charged its 49% shareholding interests in Capitol International in favour of BOCOM Holdings;



- (F) a deed of undertaking dated 27 November 2009 and executed by Capitol International and Mr. Guan, Ms. Han and Mr. Han Jianping (in their respective capacity as directors of Sanjiang Chemical) in favour of BOCOM Holdings in relation to the shareholding interest in Sanjiang Chemical legally and beneficially held by Capitol International;
- (G) a deed of undertaking dated 27 November 2009 and executed by Capitol International and Mr. Guan, Ms. Han and Mr. Han Jianping (in their respective capacity as directors of Yongming Petrochemical) in favour of BOCOM Holdings in relation to the shareholding interest in Yongming Petrochemical legally and beneficially held by Capitol International;
- (H) a deed of confirmation dated 7 December 2009 and executed by and among Sure Capital, our Company (under its previous name of Full Wealth Limited (滿裕有限公司)), Capitol International, 北京博馬凱睿投資有限公司 (Beijing Boma Carret Investment Co., Ltd.\*) and Mr. Guan in favour of the Ordinary Shares Investors, pursuant to which each of Sure Capital, our Company, Capitol International, 北京博馬凱睿投資有限公司 (Beijing Boma Carret Investment Co., Ltd.\*) and Mr. Guan agrees and undertakes to each of the Ordinary Shares Investors that each of the Ordinary Shares Investors shall be entitled to subscribe for Old Shares and enjoy such rights in respect of such shares pursuant to the terms and conditions of the ordinary shares subscription agreement dated 24 November 2009 and entered into between Sure Capital, Galaxy Century International Investment Limited (銀河世紀國際投資有限公司) and 北京博馬凱睿投資有限公司 (Beijing Boma Carret Investment Co., Ltd.\*);
- (I) a share transfer agreement dated 13 December 2009 and entered into between Jianghao Investment as purchaser and Sanjiang Chemical as vendor, pursuant to which Jianghao Investment acquired the entire 100% shareholding interest in Jianghao Property from Sanjiang Chemical for a consideration of RMB50 million;
- (J) a share transfer agreement dated 21 December 2009 and entered into between Yongming Petrochemical as purchaser and Hangzhou Haoming (under its previous name of 杭州蕭山三江精細化工有限公司 (Hangzhou Xiaoshan Sanjian Fine Chemicals Co., Ltd.\*) as vendor, pursuant to which Yongming Petrochemical acquired the entire 100% shareholding interest in Sanjiang Trading from Hangzhou Haoming for a consideration of RMB5,000,000;
- (K) a share transfer agreement dated 23 December 2009 and entered into between Sanjiang Chemical as purchaser and Hangzhou Haoming (under its previous name of 杭州蕭山三江精細化工有限公司 (Hangzhou Xiaoshan Sanjian Fine Chemicals Co., Ltd.\*) as vendor, pursuant to which Sanjiang Chemical acquired 3.51% shareholding interest in Yongming Petrochemical from Hangzhou Haoming for a consideration of RMB11,518,262;
- (L) an asset purchase agreement dated 1 April 2010 and entered into between Hangzhou Sanjiang as purchaser and Hangzhou Haoming (under its previous name of 杭州蕭山三江精細化工有限公司 (Hangzhou Xiaoshan Sanjiang Fine Chemicals Co., Ltd\*)) as vendor, pursuant to which Hangzhou Sanjiang acquired from Hangzhou Haoming the inventories, machineries and equipment for operating, the surfactant manufacturing and sale business and ethylene oxide trading business for a consideration of RMB6,369,852.08;





- (M) a debts and receivables assignment agreement dated 1 April 2010 and entered in between Hangzhou Haoming (under its previous name of 杭州蕭山三江精細化工有限公司 (Hangzhou Xiaoshan Sanjiang Fine Chemicals Co., Ltd.\*)) as assignor and Hangzhou Sanjiang as assignee, pursuant to which Hangzhou Haoming assigned all its rights and liabilities for its trade debts (being RMB1,933,245.19 payable by Hangzhou Haoming) and receivables (being RMB1,058,786.39 receivable by Hangzhou Haoming) (as the trade debts payable is greater than receivables, there was a net liability of RMB874,458.80) as at 31 March 2010 to Hangzhou Sanjiang for a consideration of RMB874,458.80 payable by Hangzhou Haoming to Hangzhou Sanjiang (as the consideration for disposal of net liability by Hangzhou Haoming to Hangzhou Sanjiang);
- (N) a share subscription agreement dated 6 May 2010 and entered into between Sure Capital and our Company, pursuant to which Sure Capital subscribed for an aggregate of 4,470 Old Shares of a par value of US\$1 each at par;
- (O) a sino-foreign joint venture agreement dated 4 May 2010 and entered into between Sanjiang Chemical and Honam Petrochemical Corp. (湖南石油化學株式會社), as supplemented and amended by a supplemental agreement dated 4 May 2010 and entered into by and among the same parties, pursuant to which both parties agreed to set up Sanjiang Honam;
- (P) a deed of indemnity dated 2 September 2010 and executed by Mr. Guan and Sure Capital in favour of our Company (for itself and as trustee for its subsidiaries stated therein) containing the indemnities more particularly referred to in paragraph 14 of this appendix;
- (Q) a non-competition undertaking dated 24 August 2010 and executed by Mr. Guan and Sure Capital in favour of our Company (for itself and as trustee for its subsidiaries), details of which are set out under the section headed “Relationship with controlling shareholders” of this prospectus; and
- (R) the Hong Kong Underwriting Agreement.

## 9. Intellectual property rights of our Group

### (a) *Registered trademarks*

As at the Latest Practicable Date, our Group had registered the following trademarks:

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
1.		Sanjiang Chemical	PRC	39 <sup>(Note 1)</sup>	6194635	7 June 2010 to 6 June 2020
2.		Sanjiang Chemical	PRC	1 <sup>(Note 2)</sup>	6194636	21 March 2010 to 20 March 2020


No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
3.		Sanjiang Chemical	PRC	1 (Note 3)	6194637	28 May 2010 to 27 May 2020
4.		Sanjiang Chemical	PRC	1 (Note 4)	6194638	21 March 2010 to 20 March 2020
5.		Sanjiang Chemical	Hong Kong	1 (Note 5)	301499130	15 December 2009 to 14 December 2019
6.		Sanjiang Chemical	PRC	1 (Note 6)	6194640	7 August 2010 to 6 August 2020

*Note:*

- The specific services under class 39 in respect of which the trademark was registered are storage; goods storage; leasing of storage containers; leasing of warehouse; transport; freight transport; leasing of vehicles; energy distribution; delivery (mail and merchandise); pipeline transport.
- The specific goods under class 1 in respect of which the trademark was registered are ethylene oxide; fire retardants; hardening agent; welding agent; chemical substances for preserving food; chemical substances for treating leather surface; paper pulp; surface-active chemical agents; plasticiser.
- The specific goods under class 1 in respect of which the trademark was registered are oxygen; acids; test chemicals (not for medical or veterinary use); liquid nitrogen; liquid argon; ethylene glycol; C12-14 alkyl alcohol; glycerol ether 18.
- The specific goods under class 1 in respect of which the trademark was registered are ethylene oxide; ethylene glycol; liquid oxygen; liquid argon; liquid nitrogen; surface-active chemical agents; C12-14 alkyl alcohol; glycerol ether; industrial chemicals; test chemicals (not for medical or veterinary use).
- The specific goods under class 1 in respect of which the trademark was registered are ethylene oxide; fire retardants; hardening agent; welding agent; chemical substances for preserving food; chemical substances for treating leather surface; paper pulp; surface-active chemical agents; plasticiser; oxygen; acids; agricultural chemicals, except germicides, insecticides and parasiticides; test chemicals (not for medical or veterinary use); industrial chemicals; liquid nitrogen; liquid argon; ethylene glycol; C12-14 alkyl alcohol; glycerol ether; auxiliary agents for polyoxyethylene ether; polyester winding oil (polyester DTY oil); polyester FDY oil; polyester POY oil; polyester UDY oil; polyether.
- The specific goods under class 1 in respect of which the trademark was registered are oxygen; acids; liquid nitrogen; liquid argon; ethylene glycol; C12-14 alkyl alcohol; glycerol ether 18.

**(b) Applications for trademark application**

As at the Latest Practicable Date, the following application had been made by our Group for the registration of the following trademark:

Trademark	Applicant	Place of registration	Class	Application number	Application date
	Sanjiang Chemical	PRC	1 (Note)	6194639	31 July 2007

*Note:*

The specific goods under class 1 in respect of which the trademark was applied for registration are ethylene oxide; fire retardants; hardening agent; welding agent; chemical substances for preserving food; chemical substances for treating leather surface; paper pulp; surface-active chemical agents; plasticiser. Pursuant to the notice of rejection dated 27 January 2010 and issued by the Trademark Office, State Administration for Industry & Commerce of the PRC (國家工商行政管理總局商標局) to Sanjiang Chemical, the trademark application number 6194639 of Sanjiang Chemical in respect of the application for registration of a trademark under class 1 have been partly rejected in respect of the following specific goods due to similarity of the subject trademark with existing registered trademarks: fire retardants; welding agent; chemical substances for preserving food; paper pulp; and surface-active chemical agents. Our Group has filed an application for appeal in relation to this trademark application for surface-active chemical agents.

**(c) Domain Name**

As of the Latest Practicable Date, our Group had registered the following domain name:

Domain name	Registration date	Expiry date
jxsjchem.com	13 April 2004	13 April 2011

**FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS****10. Directors****(A) Disclosure of interests of our Directors**

- (1) Mr. Guan and Ms. Han are interested in the Reorganisation and the transactions as contemplated under the material contracts as set out in paragraph 8 to this appendix.
- (2) Save as disclosed in this prospectus, none of our Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

**(B) Particulars of Directors' service contracts***Executive Directors*

Each of Mr. Guan, Ms. Han, Mr. Niu Yingshan and Mr. Han Jianping, being all the executive Directors, has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for a fixed term of three years with effect from 1 September 2010.

Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 1 January 2012 at the discretion of our Directors).

In addition, each of the executive Directors is also entitled to a discretionary management bonus provided the aggregate amount of bonuses payable to all the executive Directors for any financial year of our Company shall not exceed 5% of the audited consolidated or combined net profit attributable to the shareholders of our Group (after taxation and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of our Directors regarding the amount of management bonus payable to him/her.

The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

<b>Name</b>	<b>Annual salary (RMB)</b>
Mr. Guan	500,000
Ms. Han	500,000
Mr. Niu Yingshan	400,000
Mr. Han Jianping	400,000

*Independent non-executive Directors*

Each of the independent non-executive Directors has been appointed for term of two years commencing from 1 September 2010. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. Each of the independent non-executive Directors is entitled to a director's fee of HK\$120,000 per annum. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of its subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**(C) Directors' remuneration**

- (1) The aggregate emoluments (including discretionary bonuses) paid and benefits in kind granted by our Group to our Directors in respect of the financial year ended 31 December 2009 were about RMB1,376,000.
- (2) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including the independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2010 are expected to be about RMB1,690,000.

- (3) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2009 (a) as an inducement to join or upon joining our Company or (b) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (4) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2009.

***(D) Interests and short positions of Directors in the shares, underlying shares or debentures of our Company and its associated corporations***

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests and short positions of our Directors in the Shares, underlying Shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

Name of Director	Name of Group member/ associated corporation	Capacity/ nature of interest	Number and class of securities <sup>(Note 1)</sup>	Approximate percentage of shareholding
Mr. Guan	Company	Interest of controlled corporation	459,375,000 (L) <sup>(Note 2)</sup>	45.51%
	Sure Capital	Beneficial owner	8,473 ordinary shares (L)	84.71% <sup>(Note 3)</sup>
Ms. Han	Sure Capital	Beneficial owner	1,529 ordinary shares (L)	15.29% <sup>(Note 3)</sup>

*Notes:*

- (1) The letter “L” denotes our Directors’ long position in the shares of our Company or the relevant associated corporation.

- (2) These Shares are held by Sure Capital, the entire issued ordinary shares of which are owned as to approximately 84.71% by Mr. Guan and 15.29% by Ms. Han, the spouse of Mr. Guan. As at the Latest Practicable Date, the entire issued preference shares in Sure Capital, which were held by the Preference Shares Investors, represented approximately 16.67% of the total issued share capital in Sure Capital. All such preference shares will be redeemed and cancelled by Sure Capital latest by 8 a.m. on the Listing Date pursuant to the terms and conditions of the preference shares subscription and shareholders' agreement being the material contract (B) set out in paragraph 8 above. By virtue of the SFO, Mr. Guan is deemed to be interested in the Shares held by Sure Capital.
- (3) The entire issued ordinary shares of Sure Capital are held as to approximately 84.71% by Mr. Guan and 15.29% by Ms. Han. Ms. Han is the spouse of Mr. Guan.

## 11. Interest discloseable under the SFO and substantial shareholders

So far as is known to our Directors, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed "Interests and short positions of Directors in the shares, underlying shares or debentures of our Company and its associated corporations" above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, 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 members of our Group:

Name of shareholder	Company/ Name of Group member	Capacity/nature of interest	Number and class of securities/ registered capital held <sup>(Note 1)</sup>	Approximate percentage of shareholding
Sure Capital	Company	Beneficial owner	459,375,000 Shares (L)	45.51%
Zhapu Construction	Guanlang	Beneficial owner	RMB2,100,000 (L) <sup>(Note 2)</sup>	16.15%

*Notes:*

1. The letter "L" denotes the person's long position in the shares of our Company or the relevant Group member.
2. As of the Latest Practicable Date, the total registered capital of Guanlang was RMB13 million, which has been fully paid up. Zhapu Construction, an Independent Third Party, holds approximately 16.15% of the shareholding interest in Guanlang.

**12. Disclaimers**

Save as disclosed in this prospectus:

- (A) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, our Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the Global Offering and the Capitalisation Issue will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be 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 our Group;
- (B) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or its associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (C) none of our Directors nor any of the parties listed in the paragraph 20 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (D) none of our Directors nor any of the parties listed in the paragraph 20 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of our Group; and
- (E) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph 20 below:
  - (1) has any shareholding in any member of our Group; or
  - (2) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## OTHER INFORMATION

## 13. Share Option Scheme

*(A) Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the then Shareholders on 24 August 2010:

*(1) Purposes of the scheme*

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

*(2) Who may join*

Our Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (a) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of its subsidiaries or any entity (“**Invested Entity**”) in which any member of our Group holds an shareholding interest (“**Eligible Employee**”);
- (b) any non-executive directors (including independent non-executive directors) of our Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of our Group or any Invested Entity;
- (d) any customer of any member of our Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

- (g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; or
- (h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants. For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(3) *Maximum number of Shares*

- (a) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.
- (b) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 100,930,300 Shares, representing 10% of the Shares in issue on the Listing Date ("**General Scheme Limit**").
- (c) Subject to (a) above but without prejudice to (d) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to our Shareholders shall contain, among

other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (d) Subject to (a) above and without prejudice to (c) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (c) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(4) *Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by our Shareholders in general meeting of our Company with such grantee and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of our Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

(5) *Grant of options to our Directors, chief executive or substantial shareholders of our Company or their respective associates*

- (a) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).
- (b) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
  - (i) representing in aggregate over 0.1% of the Shares in issue; and

- (ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to our Shareholders. All connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by our Shareholders in general meeting.

(6) *Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(7) *Performance targets*

Unless our Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(8) *Subscription price for the Shares and consideration for the option*

The subscription price for the Shares under the Share Option Scheme shall be a price determined by our Directors, but shall not be less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (b) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (c) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(9) *Ranking of the Shares*

- (a) The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.
- (b) Unless the context otherwise requires, references to “**Shares**” in this paragraph include references to shares in the ordinary shareholding share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(10) *Restrictions on the time of the offer for the grant of options*

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (b) the deadline for our Company to publish an announcement of its results for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

Our Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(11) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

*(12) Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (14) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was actually at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

*(13) Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

*(14) Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

*(15) Rights on breach of contract*

If our Directors shall at their absolute discretion determine that (a) (i) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (ii) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (iii) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (b) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (i), (ii) or (iii) above, his option will lapse automatically on the date on which our Directors have so determined.

*(16) Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

*(17) Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

*(18) Grantee being a company wholly owned by eligible participants*

If the grantee is a company wholly owned by one or more eligible participants:

- (a) sub-paragraphs (12), (13), (14) and (15) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (12), (13), (14) and (15) shall occur with respect to the relevant eligible participant; and

- (b) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

*(19) Adjustments to the subscription price*

In the event of a capitalisation of profits or reserves, rights issue, subdivision or consolidation of Shares or reduction of share capital of our Company whilst an option remains exercisable or the Share Option Scheme remains in effect, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares and/or the subscription price of the option concerned and/or the number of Shares comprised in an option pr which remains in an option, provided that (a) any adjustments shall give a grantee the same proportion of the issued share capital to which he would have been entitled to subscribe had he exercised all the options held by him immediately prior to such alteration; (b) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (c) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (d) any adjustment must be made in compliance with the Listing Rules and such rules, codes, guidance notes and/or interpretation of the Listing Rules promulgated by the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

*(20) Cancellation of options*

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by our Shareholders pursuant sub-paragraphs (3) (c) and (d) above.

*(21) Termination of the Share Option Scheme*

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the

Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(22) *Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable.

(23) *Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period in respect of such option;
- (b) the expiry of the periods or dates referred to in paragraph (12), (13), (14), (15), (16), (17) and (18); and
- (c) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (22) above by the grantee.

(24) *Miscellaneous*

- (a) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (b) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of our Shareholders in general meeting.
- (c) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted to any grantee who is a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (d) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (e) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

**(B) *Present status of the Share Option Scheme***

**(1) *Approval of the Listing Committee required***

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

**(2) *Application for approval***

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

**(3) *Grant of option***

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

**(4) *Value of options***

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as of the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

**14. Estate duty and tax indemnity**

Mr. Guan and Sure Capital (the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (P) referred to in paragraph 8 above) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (A) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing whether alone or in conjunction with any other circumstances whenever occurring and whether or not the tax liabilities are chargeable against or attributable to any other person, firm, company or corporation;

- (B) tax liabilities (including all reasonable fines, penalties, costs, charges, expenses and interest relation to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date;
- (C) any payment obligations, fines or penalties imposed by any relevant PRC regulatory authorities which might be incurred as a result of the advances to Independent Third Parties made by any member of our Group during the Track Record Period;
- (D) any damages, losses or liabilities as a result of the lack of building ownership certificates for the 5 buildings with a total gross floor area of approximately 600 square metres, representing approximately 1.85% of the properties we own and occupy in the PRC; and
- (E) all claims, damages, losses, costs, expenses, actions and proceedings (if any) arising out of or in connection with any non-compliance or alleged non-compliance by any member of our Group with any applicable PRC rules, regulations and laws in relation to employee welfare contributions on or before the Listing Date.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands and the PRC.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation:

- (A) to the extent that provision or reserve has been made for such taxation audited accounts of any member of our Group for any accounting period up to 30 April 2010;
- (B) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 May 2010, unless liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, otherwise than any such act, omission or transaction:
  - (1) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before 30 April 2010; and
  - (2) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 April 2010 or pursuant to any statement of intention made in the prospectus; or

- (C) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the deed of indemnity with retrospective effect; or
- (D) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 30 April 2010 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

#### **15. Litigation**

As of the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Group, that would have a material adverse effect on the results of operations or financial condition of our Group.

#### **16. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK\$21,224 and are payable by our Company.

#### **17. Promoters**

- (A) The promoter of our Company is Mr. Guan.
- (B) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in sub-paragraph (A) above in connection with the Global Offering or the related transactions described in this prospectus.

#### **18. Agency fees or commissions received**

Except as disclosed in the section headed "Underwriting" in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

**19. Application for listing of Shares**

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

**20. Qualifications of experts**

The qualifications of the experts who have given opinions and/or whose names are included in this prospectus are as follows:

<b>Name</b>	<b>Qualification</b>
BOCOM Asia	Licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Daiwa	Licensed corporation under the SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified public accountants
Conyers Dill & Pearman	Cayman Islands barristers and attorneys
AllBright Law Offices	Qualified PRC lawyers
DTZ Debenham Tie Leung Limited	Professional property surveyors and valuers

**21. Consents of experts**

Each of BOCOM Asia, Daiwa, Ernst & Young, Conyers Dill & Pearman, AllBright Law Offices and DTZ Debenham Tie Leung Limited has given and has not withdrawn its written consent to the issue of this prospectus with copies of its reports, valuation, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

Except as disclosed in the section headed “Underwriting – Sponsors and Underwriters’ interest in our Company” in this prospectus, none of experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for securities in any member of our Group.

**22. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**23. Taxation of holders of Shares****(A) Hong Kong**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

**(B) The Cayman Islands**

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

**(C) Consultation with professional advisers**

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

**24. Miscellaneous****(A) Save as disclosed herein:****(1) within two years preceding the date of this prospectus:**

- (a) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
- (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries; and

- (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of its subsidiaries; and
  - (2) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (B) Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 April 2010 (being the date to which the latest audited combined financial statements of our Group were made up).

**25. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the subsection headed “Other information – Consents of experts” in Appendix VII to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VII to this prospectus.

**2. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Chiu & Partners at 40th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (A) the memorandum of association of the Company and the Articles of Association;
- (B) the accountants’ report of the Company prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (C) the letter from Ernst & Young in relation to the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this prospectus;
- (D) the letters from Ernst & Young and the Joint Sponsors in relation to profit estimate, the texts of which are set out in Appendix III of this prospectus;
- (E) the letter, summary of values and valuation certificate relating to the property interests of the Group prepared by DTZ Debenham Tie Leung Limited, the texts of which are set out in Appendix IV to this prospectus;
- (F) the Cayman Companies Law;
- (G) the letter prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Companies Law referred to in Appendix VI to this prospectus;
- (H) the legal opinions prepared by AllBright Law Offices in respect of certain aspects of the Group and the property interests of the Group in the PRC;
- (I) the material contracts referred to under the subsection headed “Further information about the Business of the Company – Summary of material contracts” in Appendix VII to this prospectus;
- (J) the written consents referred to under the subsection headed “Other information – Consents of experts” in Appendix VII to this prospectus;

- (K) the rules of the Share Option Scheme; and
- (L) the service contracts referred to in the subsection headed “Further information about Directors and Shareholders – Particulars of Directors’ service contracts” in Appendix VII to this prospectus.



三江化工  
SANJIANG CHEMICAL

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

