# Tiande Chemical Holdings Limited
# 天德化工控股有限公司

(Incorporated in the Cayman Islands with limited liability)

**(Stock code: 609)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

**RESULTS HIGHLIGHTS**

- Turnover for the six months ended 30 June 2010 was approximately RMB393.9 million, representing an increase of 39.5% as compared with that of the corresponding period last year.
- Gross profit increased by 112.2% to approximately RMB97.5 million.
- Gross profit margin reached 24.7%, representing an increase of 8.4% as compared with that of the corresponding period last year.
- Profit for the period increased by 119.2% to approximately RMB38.9 million.
- Basic earnings per share increased to approximately RMB9.7 cents (six months ended 30 June 2009: RMB4.4 cents).
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010.

The board ( the “Board”) of directors ( the “Directors”) of Tiande Chemical Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 together with the comparative figures for the corresponding period in 2009 and the selected notes as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Notes* | **RMB'000** | RMB'000 |
| | | **(unaudited)** | (unaudited) |
| Turnover | 4 | **393,941** | 282,412 |
| Cost of sales | | **(296,464)** | (236,476) |
| Gross profit | | **97,477** | 45,936 |
| Other income | | **1,858** | 2,332 |
| Selling expenses | | **(10,195)** | (10,957) |
| Administrative expenses | | **(13,035)** | (12,563) |
| Other operating expenses | 5 | **(26,814)** | - |
| Finance costs | 6 | **(4,045)** | (6,532) |
| Profit before income tax | 7 | **45,246** | 18,216 |
| Income tax expense | 8 | **(6,331)** | (461) |
| Profit for the period attributable to the owners of the Company | | **38,915** | 17,755 |
| Earnings per share for profit attributable to the owners of the Company for the period | 10 | | |
| - Basic | | **RMB0.097** | RMB0.044 |
| - Diluted | | **RMB0.097** | N/A |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Profit for the period | **38,915** | 17,755 |
| Other comprehensive (expense)/income | | |
| Exchange (loss)/gain on translation of financial statements of foreign operations | **(66)** | 7 |
| Other comprehensive (expense)/income for the period | **(66)** | 7 |
| Total comprehensive income for the period attributable to the owners of the Company | **38,849** | 17,762 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | **30 June 2010 RMB'000 (unaudited)** | 31 December 2009 RMB'000 (audited) |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **361,805** | 364,853 |
| Prepaid land lease payments | | **57,233** | 57,880 |
| Investment properties | | **10,850** | 10,850 |
| Deposits paid for acquisition of property, plant and equipment | | **3,524** | 2,414 |
| Deferred tax assets | | **1,724** | 355 |
| | | **435,136** | 436,352 |
| **Current assets** | | | |
| Inventories | | **55,828** | 43,222 |
| Trade and bills receivable | 11 | **95,685** | 110,947 |
| Prepayments and other receivables | | **23,866** | 23,448 |
| Current tax assets | | **2,144** | 3,708 |
| Bank and cash balances | | **21,364** | 16,758 |
| | | **198,887** | 198,083 |
| Non-current assets classified as held for sale | | **3,647** | 3,647 |
| | | **202,534** | 201,730 |
| **Current liabilities** | | | |
| Trade payables | 12 | **24,612** | 23,767 |
| Accruals and other payables | | **52,579** | 53,347 |
| Bank borrowings | | **82,600** | 107,169 |
| Current tax liabilities | | **516** | 451 |
| | | **160,307** | 184,734 |
| **Net current assets** | | **42,227** | 16,996 |
| **Total assets less current liabilities** | | **477,363** | 453,348 |
| **Non-current liabilities** | | | |
| Bank borrowings | | **36,000** | 42,000 |
| Deferred income | | **20,041** | 21,412 |
| Deferred tax liabilities | | **2,014** | 1,988 |
| | | **58,055** | 65,400 |
| **NET ASSETS** | | **419,308** | 387,948 |
| **EQUITY** | | | |
| **Equity attributable to the Company's owners** | | | |
| Share capital | | **4,042** | 4,031 |
| Reserves | | **415,266** | 383,917 |
| **TOTAL EQUITY** | | **419,308** | 387,948 |

**SELECTED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2010**

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal activity of the Company is investment holding. The principal activities of the Group are research and development, manufacture and sales of fine chemical products.

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 (the "Unaudited Condensed Financial Report") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Unaudited Condensed Financial Report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009 (the "2009 Annual Financial Statements").

The Unaudited Condensed Financial Report has been prepared in accordance with the same accounting policies adopted in the 2009 Annual Financial Statements, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards and Interpretations issued by the HKICPA.

The Unaudited Condensed Financial Report is presented in Renminbi ("RMB") which is the Company's presentation currency and functional currency of the principal operating subsidiaries of the Group and all values are rounded to the nearest thousands except when otherwise stated.

## 3. ADOPTION OF NEW OR AMENDED HKFRSs

In the current period, the Group has applied for the first time the following new and revised standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2010:

| | |
|---|---|
| HKAS 27 (Revised 2008) | Consolidated and separate financial statements |
| HKFRS 2 (Amendments) | Share-based payment – Group cash-settled share-based payment transactions |
| HKFRS 3 (Revised 2008) | Business combinations |
| Various | Annual Improvements to HKFRSs 2008 |
| Various | Annual Improvements to HKFRSs 2009 |

Other than as noted below, the adoption of these new and revised HKFRSs did not change the Group's accounting policies as followed in the preparation of the 2009 Annual Financial Statements.

**HKFRS 3 Business combinations (Revised 2008)**

The adoption of HKFRS 3 requires the use of the purchase method (now renamed as the acquisition method) and introduces certain changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interests) in the acquiree. The revised standard has been applied prospectively to business combination for which the acquisition date is on or after 1 January 2010. Business combinations for which the acquisition date is before 1 January 2010 have not been restated. This standard does not have any impact on the Unaudited Condensed Financial Report as the Group has not entered into any business combination during the period.

**HKAS 27 Consolidated and separate financial statements (Revised 2008)**

The adoption of HKFRS 3 required that the revised HKAS 27 is adopted at the same time. HKAS 27 introduced changes to the accounting requirements for transactions with non-controlling (formerly called "minority") interests and the loss of control of a subsidiary. Similar to HKFRS 3, the adoption of HKAS 27 is applied prospectively. The Group did not dispose of any of its equity interests in its subsidiaries. Therefore, the adoption of HKAS 27 did not have an impact on the Unaudited Condensed Financial Report.

**HKAS 17 (amendment) Leases**

HKAS 17 deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. The Group has reassessed the classification of unexpired leasehold land and land use right as at 1 January 2010 on the basis of information existing at the inception of those leases, and considered this amendment did not have any impact to the Group as all the leases of land should still be classified as operating lease under HKAS 17 (amendment).

The Directors anticipate that the application of other new and revised HKFRSs but not yet effective will have no material impact on the results and the financial position of the Group.

## 4. TURNOVER AND SEGMENT INFORMATION

The executive Directors of the Company have identified the Group's five products and services lines as operating segments.

(i) Cyanoacetic acid and its esters products: Research and development, manufacture and sale of cyanoacetic acid and its esters products;
(ii) Alcohols products: Research and development, manufacture and sale of alcohols products;
(iii) Chloroacetic acid and its derivatives products: Research and development, manufacture and sale of chloroacetic acid and its derivatives products;
(iv) Fine petrochemical products: Research and development, manufacture and sale of fine petrochemical products; and
(v) Other by-products: Sale of other by-products, e.g. steam.

### TURNOVER

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Sales of cyanoacetic acid and its esters products | **360,619** | 242,474 |
| Sales of alcohols products | **20,132** | 20,966 |
| Sales of chloroacetic acid and its derivatives products | **1,217** | 134 |
| Sales of fine petrochemical products | **8,501** | 18,526 |
| Sales of other by-products | **3,472** | 312 |
| | **393,941** | 282,412 |

### SEGMENT INFORMATION

The operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. Each of these operating segments is managed separately as each of the products and service lines requires different resources as well as marketing approaches. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

**For the six months ended 30 June 2010**

| | **Cyanoacetic acid and its esters products** | **Alcohols products** | **Chloroacetic acid and its derivatives products** | **Fine petrochemical products** | **Other by-products** | **Total** |
|---|---|---|---|---|---|---|
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| | **(unaudited)** | **(unaudited)** | **(unaudited)** | **(unaudited)** | **(unaudited)** | **(unaudited)** |
| **Revenue:** | | | | | | |
| **From external customers** | **360,619** | **20,132** | **1,217** | **8,501** | **3,472** | **393,941** |
| **Inter-segment revenue** | **-** | **11,575** | **53,849** | **-** | **20,716** | **86,140** |
| **Reportable segment revenue** | **360,619** | **31,707** | **55,066** | **8,501** | **24,188** | **480,081** |
| **Reportable segment profit/(loss)** | **77,441** | **1,519** | **7,807** | **(16,759)** | **3,291** | **73,299** |
| **Reportable segment assets** | **265,914** | **19,469** | **56,726** | **26,339** | **73,985** | **442,433** |

For the six months ended 30 June 2009

| | Cyanoacetic acid and its esters products | Alcohols products | Chloroacetic acid and its derivatives products | Fine petrochemical products | Other by-products | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue: | | | | | | |
| From external customers | 242,474 | 20,966 | 134 | 18,526 | 312 | 282,412 |
| Inter-segment revenue | 3 | 10,736 | 45,314 | - | 13,484 | 69,537 |
| Reportable segment revenue | 242,477 | 31,702 | 45,448 | 18,526 | 13,796 | 351,949 |
| Reportable segment profit/(loss) | 27,906 | 1,073 | 9,271 | (180) | 2,246 | 40,316 |
| Reportable segment assets | 289,234 | 19,163 | 38,826 | 54,377 | 75,185 | 476,785 |

The totals presented for the Group’s operating segments reconcile to the Group’s key financial figures as presented in the financial statements as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Reportable segment profit | **73,299** | 40,316 |
| Rental income | **236** | 108 |
| Employee share-based payment expenses | **(609)** | (688) |
| Finance costs | **(4,045)** | (6,532) |
| Other unallocated income | **193** | 436 |
| Other unallocated expenses | **(12,995)** | (12,508) |
| Elimination of inter-segment profit | **(10,833)** | (2,916) |
| Profit before income tax | **45,246** | 18,216 |

## 5. OTHER OPERATING EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Write-off of property, plant and equipment in relation to the removal (note i) | **9,394** | - |
| Removal expenses (note i) | **3,300** | - |
| Impairment loss on property, plant and equipment (note ii) | **14,120** | - |
| | **26,814** | - |

Notes:

(i) On 12 June 2008, Shandong Weifang Economic Development Zone Planning and Construction Bureau issued a resumption notice to Weifang Common Chem Co., Ltd. ("Weifang Common"), an indirectly wholly-owned subsidiary of the Company, in respect of the resumption of land use rights of three pieces of land (collectively referred to as the "Land", which include "Land 1", "Land 2" and "Land 3"). The disposals of Land 2 and Land 3 were completed in last year. During the period, property, plant and equipment with net carrying amount of approximately RMB9,394,000 were written off due to the removal of production facilities of Weifang Common erected on Land 1. The Group recognised the removal expenses of approximately RMB3,300,000 in profit or loss for the period. The Directors of the Company are still in active negotiations with the relevant local authorities for the amount of compensation and other resumption terms and conditions of Land 1 and the completion date for the disposal of Land 1 is expected to be by end of 2010.

(ii) During the period, the net carrying amounts of property, plant and equipment were reduced to their recoverable amounts which were determined by reference to the estimation of future cashflows expected to be generated from the respective assets in relation to the production of fine petrochemical products.

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Interest charges on: | | |
| Bank loans wholly repayable within five years | **4,024** | 6,342 |
| Discounted bills | **21** | 190 |
| | **4,045** | 6,532 |

## 7. PROFIT BEFORE INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Profit before income tax is arrived at after charging/(crediting): | | |
| Directors' remuneration | | |
| Fees | **139** | 140 |
| Salaries and allowances | **1,140** | 1,140 |
| Retirement benefit scheme contriubtions | **31** | 25 |
| | **1,310** | 1,305 |
| Other staff costs | **14,462** | 11,344 |
| Retirement benefit scheme contriubtions | **1,023** | 840 |
| Equity-settled share-based payments expenses | **609** | 688 |
| Total staff costs | **17,404** | 14,177 |
| Amortisation of prepaid land lease payments | **647** | 718 |
| Cost of inventories recognised as expenses (note i), including | **290,459** | 234,347 |
| - Write-down of inventories to net realisable value | **1,389** | 113 |
| - Reversal of write-down of inventories to net realisable value (note ii) | **(356)** | (2,117) |
| Depreciation on property, plant and equipment | **18,631** | 17,422 |
| Exchange losses, net | **244** | 114 |
| Minimum lease payments under operating leases in respect of leasehold land and building | **300** | 734 |
| Outgoings in respect of investment properties | **39** | - |
| Research costs | **540** | 294 |
| Impairment loss on trade receivables | **-** | 187 |
| Loss on disposals of property, plant and equipment | **-** | 373 |
| Write-off of property, plant and equipment in relation to the removal (note 5) | **9,394** | - |
| Removal expenses (note 5) | **3,300** | - |
| Impairment loss on property, plant and equipment (note 5) | **14,120** | - |

Notes:

(i) Cost of inventories includes approximately RMB15,988,000 (Six months ended 30 June 2009: RMB14,678,000) relating to depreciation expenses and approximately RMB12,588,000 (Six months ended 30 June 2009: RMB9,571,000) relating to staff costs.

(ii) The write-down of inventories of approximately RMB356,000 (Six months ended 30 June 2009: RMB2,117,000) was reversed as the market price of these inventories was increased during the period.

## 8. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Current tax - People's Republic of China ("PRC") Enterprise Income Tax | **7,674** | 103 |
| Deferred tax | **(1,343)** | 358 |
| | **6,331** | 461 |

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor derives from Hong Kong (Six months ended 30 June 2009: Nil).

Weifang Common is subject to PRC Enterprise Income Tax at the rate of 25% for the period (Six months ended 30 June 2009: 25%).

Shanghai Dehong Chemical Company Limited is subject to PRC Enterprise Income Tax at the rate of 22% for the period (Six months ended 30 June 2009: 20%), being the preferential tax rate in Shanghai Pudong New District.

Pursuant to the relevant laws and regulations in the PRC, Weifang Parasia Chem Co., Ltd. ("Weifang Parasia") and Weifang Binhai Petro-Chem Co., Ltd. ("Weifang Binhai") are eligible for certain tax holidays and concessions in the PRC. The tax holiday and concessions are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years. PRC Enterprise Income Tax has been provided for Weifang Parasia at the preferential rate of 12.5% for the period (Six months ended 30 June 2009: 12.5%) as this is the fifth profitable year. PRC Enterprise Income Tax has been provided for Weifang Binhai at the preferential rate of 12.5% for the period as this is the third profitable year (Six months ended 30 June 2009: Nil as that was the second profitable year and tax was exempted).

A government grant obtained by Weifang Binhai for subsidising the construction of the production lines and ancillary facilities for manufacturing of high purity isobutylene, polyisobuylene and chloro acetic acid which was recognised as a deferred income in 2006. As the construction has been completed as at 31 December 2007, the deferred income commenced to release to profit or loss over the useful lives of the relevant assets. Such income is taxable for the year in which it is released to profit or loss.

## 9. DIVIDENDS PER SHARE

During the period, a final dividend for the year ended 31 December 2009 of HK2.5 cents per share (Six months ended 30 June 2009: HK1.25 cents per share), amounting to approximately RMB8,800,000 (Six months ended 30 June 2009: RMB4,400,000), was paid to the shareholders of the Company.

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2010 (Six months ended 30 June 2009: Nil).

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| | **(unaudited)** | (unaudited) |
| Profit for the period attributable to the owners of the Company for the purposes of basic and diluted earnings per share | **38,915** | 17,755 |

| | Number of ordinary shares | |
|---|---|---|
| | Six months ended 30 June | |
| | **2010** | 2009 |
| | **'000 shares** | '000 shares |
| | **(unaudited)** | (unaudited) |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **400,496** | 400,000 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | **760** | - |
| Weighted average number of ordinary shares for the purpose of dilutive earnings per share | **401,256** | 400,000 |

The calculation of basic earnings per share for the six months ended 30 June 2010 was based on the profit attributable to the owners of the Company of RMB38,915,000 (Six months ended 30 June 2009: RMB17,755,000) and on the weighted average of 400,496,000 (Six months ended 30 June 2009: 400,000,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2010 was based on the profit attributable to the owners of the Company of RMB38,915,000 and the weighted average of 401,256,000 ordinary shares in issue during the period, as used in the basic earnings per share calculation plus the weighted average of 760,000 ordinary shares deemed to be issued at no consideration as if all the Company's share options have been exercised.

There were no dilutive potential ordinary shares for the six months ended 30 June 2009 as the outstanding share options were out of the money for the purpose of the diluted earnings per share calculation.

**11. TRADE AND BILLS RECEIVABLE**

The Group allows a credit period normally ranging from one month to six months to its trade customers. The bills receivable are non-interest bearing bank acceptance bills and aged within six months at both reporting dates. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management.

The ageing analysis of trade and bills receivable at the reporting date, based on the invoice date, is stated as follows:

| | **30 June 2010 RMB'000 (unaudited)** | 31 December 2009 RMB'000 (audited) |
|---|---|---|
| 0 to 90 days | **89,424** | 94,608 |
| 91 to 180 days | **6,249** | 15,722 |
| 181 to 365 days | **12** | 617 |
| | **95,685** | 110,947 |

**12. TRADE PAYABLES**

The Group was granted by its suppliers credit periods ranging from 30 to 365 days. The ageing analysis of trade payables at the reporting date, based on the invoice date, is as follows:

| | **30 June 2010 RMB'000 (unaudited)** | 31 December 2009 RMB'000 (audited) |
|---|---|---|
| 0 to 90 days | **22,778** | 22,114 |
| 91 to 180 days | **507** | 268 |
| 181 to 365 days | **192** | 524 |
| Over 365 days | **1,135** | 861 |
| | **24,612** | 23,767 |

**MANAGEMENT DISCUSSION AND ANALYSIS**

**BUSINESS REVIEW**

Economic conditions continuously improved during the current global economy recovery. The downstream industries of the Group have rapidly recovered and maintained a strong growth momentum. The Chinese government has launched various economic stimulus measures promoting domestic demands. All these offered the Group fast growing opportunities. Since the Group has succeeded in deploying several high potential products to the market in past years and adopted effective pricing strategy, these positive factors reflected in the financial results of the period under review which, the turnover of the Group has met and exceeded the target set at the beginning of the year.

The Group has pursued its production strategies by streamlining its supply chain and optimising its production scale in order to effectively increase the core competencies. By virtue of its upward vertically-integrated production system which results in the advantages of raw material costs and the continuous expansion of the production capacities of its potential products which increases the benefits of scale production, the Group has controlled effectively its costs and enhanced greatly its production efficiency during the period under review.

Since the Group has adopted appropriate business strategies, the Group achieved satisfactory results in turnover, profit and liquidity during the period under review. The Group will continuously improve and enrich its products portfolio according to the market demands in order to increase its revenue and enhance its profitability in the coming future. Furthermore, the Group will continue to invest in production facilities refinement whenever it is necessary in order to improve its productivity.

The product category of cyanoacetic acid and its esters products is still the core product category of the Group, accounted for 91.5% of the Group's total turnover. Leverage on its upward vertically-integrated production system and the economy of scale production, the competitiveness of such product category was greatly enhanced. The Group will continuously provide sufficient resources to advance the production facilities, enlarge the production capacities and exploit the strengths of this product category to meet the continuous growth of the market demands in future. As the market of such product category is becoming mature, the Group has strong foothold and market edges that is advantage to the Group to capture opportunities arising in currently fast growing market and reap its future profit potential.

The business of alcohols products is very mature and stable but its growth and development are narrowed due to keen market competition. The Group will keep a steady development of this product category in future.

The product category of chloroacetic acid and its derivatives products is mainly used for the Group's internal consumption. Since the internal demands of such products exceed its existing production capacities, the Group implemented a program to expand the production capacities in respect of such product category during the period under review and expected it to be completed in the second half of this year. As such product category plays supplementary and synergistic role to the cyanoacetic acid and its esters products, the expansion will promote the advantages of scale production that will further reduce the overall costs. The Group expected that the benefits of which will emerge gradually and envisaged a very positive prospect for the development of such product category.

The increase of raw materials costs and the difficulties in the sourcing adversely affected the results of fine petrochemical products during the period under review. The Group has expanded the products range and installed the advanced production facilities and technologies for such product category in the past years, and has further devoted to widen the customer base during the period under review. The Group will strive to enhance the procurement competence, enlarge supply channels and optimise the production process to further strengthen the products' competitiveness in future.

The Group has been well ahead of its peers in accomplishing the environmental protection requirements imposed by the relevant local authorities. Apart from the establishment of waste water, waste air and scrap treatment system, the Group has also been improving its production process and maximising the utilisation of the resources in order to reduce its emission during the period under review. The Group regards the environmental protection as a crucial factor in maintaining its competitive edges and long-term development. The Group will stick to continuous development and enhancement of its safety and environmental protection policy in line with its long term business development.

Currently, the Group has undertaken several construction projects in order to upgrade and advance its existing production facilities and capacities and thus to reinforce its production effectiveness. Those construction projects will be completed in the second half of this year. The Group will assess the rate of return and potential growth of each investment project and ensure that the return is able to uphold its business continuous growth as well as reinforcing its working capital management.

**Resumption and Relocation**

According to the notice of the resumption of land (please refer to the Company's announcement dated 18 November 2008 for details), the usage of the three plots of land owned by Weifang Common is changed from industrial use to non-industrial use in accordance with the working direction laid down by the local government. As the production plant of Weifang Common is erected on those plots of land which are not consistent with such working direction and are subject to resumption. The resumption agreements of two plots of land (the "Resumption Agreements") were formally signed in November 2008 and December 2009 respectively. The Group is still negotiating with the relevant local authorities for the amount of compensation and the terms of resumption for the remaining piece of land. As at the date of this announcement, no final terms have been concluded.

Weifang Common has completed the removal and relocation of its production plant during the period under review, and the two plots of land have already surrendered to the local government according to the Resumption Agreements. The Group expected that the remaining piece of land will formally be resumed by the local government in the second half of the year. Currently, the production and operation of Weifang Common is operated in the other nearby production plants of the Group. As the production process has been centralised, the overall production is become more effective. The Directors believe that the resumption and relocation will be benefit to the Group's long term development as a whole.

**Outlook**

As the majority of the Group's turnover is still derived from the PRC, which represented 80.4% of the Group's total turnover during the period under review, the Group will remain its focus on the PRC market in foreseeable future and concentrate its resources to increase its overall market share aiming to be the strongest industry player. Since the Group has established a strong and solid foundation, the Directors are confident that the Group is capable of capturing the opportunities whenever they arise and putting forward its business expansion to increase its future profit.

The Group has put sufficient resources in the enhancement of its upward vertically-integrated production system as well as refinement its production facilities over the last few years so as to build up its core strengths and accelerate its business development. The Group will continuously adhere to its long-term strategic business plan to further extend its market shares and enhance its competitiveness to achieve a consistent and steady growth. Meanwhile, the Group will further improve its operating efficiency and strive to nurture new businesses to achieve long-term sustainable development strategy.

Looking forward, the Group will continuously pursue improvements, breakthroughs and sustainable growth. In a fast developing and a changing operating environment, the Group has well defined its development direction and will fully utilise its prevailing resources advantages and market edges, quickly and timely launch new products with market potential and competitiveness. The Group will also, from time to time, actively look for other investment opportunities such as forming joint ventures with strategic partners or acquisition of potential business in similar field and so on so as to generate more business opportunities in future. The Group is ready to meet the challenges ahead.

Given the continued economic growth in the PRC, the foreseeable market demands are still promising. The Directors are confident that the business of the Group will has further growth and become more solid so that the return to shareholders of the Company will be improved.

**FINANCIAL REVIEW**

The Group recorded satisfactory growth in its turnover and gross profit for the six months ended 30 June 2010 which amounted to approximately RMB393.9 million and RMB97.5 million respectively, representing an increase of approximately RMB111.5 million and RMB51.6 million or 39.5% and 112.2% as compared with RMB282.4 million and RMB45.9 recorded in the corresponding period of last year. Such encouraging results were primarily attributable to the recovery of economies and the improvement in the operating environment as a result of which both the products price and sales quantity of the Group were increased. Meanwhile, as the Group has controlled its costs effectively through its scale production and upward vertically-integrated production strategies, the gross profit margin of the Group was also well improved.

Selling expenses decreased by approximately RMB0.8 million from approximately RMB11.0 million in the corresponding period of last year to approximately RMB10.2 million, which was mainly due to the effective management of expenses that reduced the sales commission and the transportation costs. The selling expenses as a percentage of the Group's turnover was 2.6% (Six months ended 30 June 2009: 3.9%) during the period under review.

The administrative expenses amounted to approximately RMB13.0 million, which was slightly increased by approximately RMB0.4 million from approximately RMB12.6 million in the corresponding period of last year. Such an increase was principally as a result of the increase in travelling, research and development costs, staff costs and other local tax expenses during the period under review. The administrative expenses accounted for 3.3% of the Group's turnover, which was lower than 4.5% in the corresponding period of last year.

The other operating expenses represented (i) the impairment loss on the production facilities of fine petrochemical products; (ii) the written-off on production machinery of Weifang Common due to the removal of production plant; and (iii) the related removal expenses incurred during the period under review.

The finance costs comprised interest on bank borrowings and discounted bank acceptance bills, which were decreased by approximately RMB2.5 million from approximately RMB6.5 million in the corresponding period of last year to approximately RMB4.0 million. The decrease was mainly due to the decrease in bank borrowings and discounted bank acceptance bills during the period under review.

As a result of the effective control in the operating costs, the profit attributable to equity holders of the Company recorded considerable growth, amounted to approximately RMB38.9 million, representing an increase of approximately RMB21.1 million or 119.2% as compared with RMB17.8 million recorded in the corresponding period of last year.

Basic earnings per share increased to approximately RMB9.7 cents from approximately RMB4.4 cents in the corresponding period last year.

**Liquidity and financial resources**

For the six months ended 30 June 2010, the Group's primary source of funding included the net cash inflow generated from operating activities of approximately RMB78.6 million (Six months ended 30 June 2009: RMB5.7 million); newly raised bank borrowings of approximately RMB17.9 million (Six months ended 30 June 2009: RMB104.0 million); newly raised fund from issue of shares under share option scheme of approximately RMB0.7 million (Six months ended 30 June 2009: Nil) and interest received of approximately RMB0.03 million (Six months ended 30 June 2009: RMB0.3 million). With the financial resources obtained from the Group's operations, the Group had paid approximately RMB31.3 million (Six months ended 30 June 2009: RMB21.2 million) in the acquisition of the property, plant and equipment, bank borrowing repayments of approximately RMB48.5 million (Six months ended 30 June 2009: RMB85.4 million); interest paid of approximately RMB4.0 million (Six months ended 30 June 2009: RMB6.0 million) and dividends paid of approximately RMB8.8 million (Six months ended 30 June 2009: RMB4.4 million).

As at 30 June 2010, the Group had bank and cash balances of approximately RMB21.4 million (31 December 2009: RMB16.8 million). The total amount of outstanding borrowings was approximately RMB118.6 million (31 December 2009: RMB149.2 million). The liquidity position of the Group was continuously improved, the gearing ratio (which is represented by the ratio of net debts (total borrowings net of cash and cash equivalents) to total shareholders' equity) decreased to 23.2% (31 December 2009: 34.1%) and the net current assets increased to approximately RMB42.2 million (31 December 2009: RMB17.0 million) as a result of the effective control on capital expenditure and production and operating costs implemented by the Group during the period under review. With the positive cash inflow from the Group's operations, existing cash resources and its available banking facilities obtained from its bankers, the Group has sufficient financial resources to meet its commitments and working capital requirements in foreseeable future. The Group will continuously manage its working capital closely and cautiously and dedicate to keep a sound liquidity position to optimise the equity return to its shareholders.

During the period under review, the Group did not use any financial instruments for any hedging purposes.

**Pledge of assets**

As at 30 June 2010, the Group has prepaid land lease payments of approximately RMB43.7 million (31 December 2009: RMB57.7 million) and no properties, plant and equipment (31 December 2009: an aggregate net book value of RMB19.6 million) were pledged to secure the Group's bank borrowings.

**Contingent liabilities**

As at 30 June 2010, the Group had no material contingent liabilities.

**Exposure to fluctuations in exchange rate**

The Group's operation is mainly in the PRC and its assets, liabilities, revenues and transactions are mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

The Group's foremost exposure to the foreign exchange risk was caused by the fluctuation of Renminbi during the period under review. Most of the Group's income and expenses were denominated in Renminbi except those for the Group's export sales which were, in majority, denominated in United States dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of the fluctuations in currency exchange rates during the period under review. Besides, the Group will consider cost-efficient hedging methods to cope with future foreign currency transactions when appropriate.

**HUMAN RESOURCES**

As at 30 June 2010, the Group has 683 fulltime employees (31 December 2009: 721 fulltime employees) of which 605 were production and warehouse, 19 were sales and marketing, 7 were research and development centre, and 52 were back-office supportive employees. The number of employees was reduced due to the enhancement in operation efficiency.

The Group has established its human resources policies and procedures with a view to deploying more motivated incentives and rewards of the remuneration system which include a wide range of training and personal development programs to the employees. The remuneration package offered to the staff was in line with the duties and the prevailing market terms. Staff benefits, including medical insurance and provident funds, have also been provided to the employees of the Group.

Employees of the Group would receive discretionary bonuses and monetary rewards based on their ratings in annual performance appraisals. The Group also offered other incentives or supports to the employees in order to motivate their personal growth and career development, such as ongoing training to enhance their technical and product knowledge as well as their knowledge of industry quality standards. All new staff of the Group are required to attend an introductory course and there are also various types of training courses available to all the Group's employees.

The Group has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Company has granted 4,000,000 share options to eligible employees and a supplier to recognise their contribution to the Group so far. No share option of the Company was granted during the period under review.

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries had redeemed, purchased or sold any of the Company's listed shares.

## CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provision of the Corporate Governance Practices as set out in the Listing Rules during the six months ended 30 June 2010.

## MODEL CODES FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct with standards no less than those prescribed under the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors throughout the six months ended 30 June 2010.

The senior management, who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors.

## REMUNERATION COMMITTEE

The Remuneration Committee currently comprises an executive director of the Company, Mr. Liu Hongliang (Chairman of the Remuneration Committee) and three independent non-executive directors of the Company, Mr. Leung Kam Wan, Mr. Guo Baoyu and Mr. Liu Chenguang. During the period under review, the Remuneration Committee has reviewed and approved the remuneration package of all Directors and senior management of the Company for the year ending 31 December 2010 by reference to the scope duties and responsibilities of the Directors of the Company, corporate goals and objectives of the Group, after taking into account also the comparable market conditions. No Director shall participate in any discussion and decision about his own remuneration.

## AUDIT COMMITTEE

The Audit Committee of the Company comprises the three independent non-executive directors of the Company, namely Mr. Leung Kam Wan (Chairman of the Audit Committee), Mr. Guo Baoyu and Mr. Liu Chenguang. The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters with our management and independent auditor relating to the preparation of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2010. There is no disagreement raised by the Audit Committee on the accounting treatment adopted by the Company during the period under review.

By order of the Board
**Liu Hongliang**
Chairman

Hong Kong, 27 August 2010

*As at the date of this announcement, the executive directors of the Company are Mr. Liu Hongliang, Mr. Wang Zijiang, Mr. Guo Xitian and Mr. Guo Yucheng; whilst the independent non-executive directors of the Company are Mr. Leung Kam Wan, Mr. Liu Chenguang and Mr. Gao Baoyu.*