# 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)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

**RESULTS HIGHLIGHTS**

- Turnover increased by 3.3% to approximately RMB1,003.9 million (2011: RMB972.2 million).
- Gross profit increased by 19.0% to approximately RMB261.6 million (2011: RMB219.8 million).
- Gross profit margin reached 26.1%, representing an increase of 3.5% (2011: 22.6%).
- Profit for the year ended 31 December 2012 increased by 20.3% to approximately RMB159.2 million (2011: RMB132.4 million).
- EBITDA increased by 19.5% to approximately RMB251.0 million (2011: RMB210.1 million).
- Basic earnings per share increased to approximately RMB0.188 (2011: RMB0.156).
- The Directors recommend a final dividend of 3.8 HKcents (2011: final dividend of 3.0 HKcents) per share in respect of the year ended 31 December 2012.

The board (the "**Board**") of directors (the "**Directors**") of Tiande Chemical Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2012 together with the comparative figures for the corresponding period in 2011 with the selected notes as follows:

## CONSOLIDATED INCOME STATEMENT

| | | **FOR THE YEAR ENDED 31 DECEMBER** | |
|---|---|---|---|
| | | **2012** | 2011 |
| | *Notes* | **RMB'000** | RMB'000 |
| Turnover | 3 | **1,003,895** | 972,163 |
| Cost of sales | | **(742,292)** | (752,402) |
| Gross profit | | **261,603** | 219,761 |
| Other income | | **5,962** | 5,023 |
| Revaluation gain on investment properties | | **590** | 230 |
| Selling expenses | | **(22,212)** | (21,611) |
| Administrative expenses | | **(33,808)** | (35,140) |
| Finance costs | | **(8,692)** | (6,642) |
| Fair value loss on derivative financial instruments | | **(6,990)** | - |
| Share of profit of a jointly controlled entity | | **373** | - |
| Profit before income tax | 4 | **196,826** | 161,621 |
| Income tax expense | 5 | **(37,644)** | (29,261) |
| Profit for the year | | **159,182** | 132,360 |
| Profit for the year attributable to owners of the Company | | **159,182** | 132,360 |
| Proposed dividends | 6 | **25,750** | 20,760 |
| Earnings per share | 7 | | |
| - Basic and diluted | | **RMB0.188** | RMB0.156 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | FOR THE YEAR ENDED 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| **Profit for the year** | **159,182** | 132,360 |
| **Other comprehensive (expense)/income** | | |
| Gain on revaluation of properties | **-** | 392 |
| Deferred tax liabilities arising on revaluation of properties | - | (98) |
| Exchange differences arising on translation of foreign operations | **(464)** | (689) |
| **Other comprehensive expense for the year** | **(464)** | (395) |
| **Total comprehensive income for the year** | **158,718** | 131,965 |
| **Total comprehensive income for the year attributable to owners of the Company** | **158,718** | 131,965 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Notes* | AS AT 31 DECEMBER<br>**2012**<br>**RMB'000** | <br>2011<br>RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **473,262** | 399,279 |
| Prepaid land lease payments | | **54,001** | 55,294 |
| Investment properties | | **13,030** | 12,440 |
| Deposits paid for acquisition of property, plant and equipment | | **22,008** | 2,432 |
| Interest in a jointly controlled entity | | **48,511** | - |
| Deferred tax assets | | **-** | 63 |
| | | **610,812** | 469,508 |
| **Current assets** | | | |
| Inventories | | **58,814** | 85,529 |
| Trade and bills receivable | 8 | **210,666** | 210,348 |
| Prepayments and other receivables | | **29,913** | 15,577 |
| Amount due from a jointly controlled entity | | **443** | - |
| Pledged bank deposits | | **-** | 13,400 |
| Bank and cash balances | | **49,962** | 63,889 |
| | | **349,798** | 388,743 |
| **Current liabilities** | | | |
| Trade payables | 9 | **17,498** | 37,851 |
| Accruals and other payables | | **65,056** | 53,654 |
| Bank borrowings | | **57,000** | 70,000 |
| Current tax liabilities | | **13,421** | 9,681 |
| | | **152,975** | 171,186 |
| **Net current assets** | | **196,823** | 217,557 |
| **Total assets less current liabilities** | | **807,635** | 687,065 |
| **Non-current liabilities** | | | |
| Bank borrowings | | **17,000** | 39,000 |
| Deferred income | | **13,191** | 15,931 |
| Deferred tax liabilities | | **2,663** | 2,463 |
| Derivative financial instruments | | **6,990** | - |
| | | **39,844** | 57,394 |
| **NET ASSETS** | | **767,791** | 629,671 |
| **EQUITY** | | | |
| **Equity attributable to the Company's owners** | | | |
| Share capital | | **7,786** | 7,786 |
| Reserves | | **760,005** | 621,885 |
| **TOTAL EQUITY** | | **767,791** | 629,671 |

**SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("**HKFRS**"), Hong Kong Accounting Standards ("**HKAS**") and Interpretations ("**Int**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The consolidated financial statements are presented in Renminbi ("**RMB**") which is the Company's presentation currency and functional currency of the principal operating subsidiaries of the Company and all values are rounded to the nearest thousand except when otherwise stated.

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of investment properties and certain financial instruments which are stated at fair values.

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new 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 2012:

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures – Transfers of Financial Assets |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets |

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

**Amendments to HKFRS 7 - Disclosures – Transfers of Financial Assets**

The amendments to HKFRS 7 expand the disclosure requirements for transfer transactions of financial assets, in particular where the reporting entity has continuing involvement in financial assets that it has derecognised. The newly required disclosures allow users of financial statements to better understand the risks to which the reporting entity remains exposed. And such information is relevant in assessing the amount, timing and uncertainty of the entity's future cash flows. The amendments did not have an impact on the Group's financial position, performance or its disclosures.

**Amendments to HKAS 12 - Deferred Tax – Recovery of Underlying Assets**

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

The Group has investment property located in the People's Republic of China (the "**PRC**") measured at fair value of RMB13,030,000 as at 31 December 2012 (31 December 2011: RMB12,440,000). The Group has rebutted the presumption in respect of its investment properties located in the PRC as they are assessed to be depreciable and are held by a subsidiary with a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time rather than through sale. Deferred tax in relation to these investment properties has not been re-measured.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not effective, and have not been adopted by the Group.

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

**Amendments to HKAS 1 (Revised) - Presentation of Items of Other Comprehensive Income**

The standard is effective for accounting periods beginning on or after 1 July 2012. The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit or loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluation of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

**HKFRS 9 - Financial Instruments**

The standard is effective for accounting periods beginning on or after 1 January 2015 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The Directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

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

**HKFRS 10 - Consolidated Financial Statements**

The standard is effective for accounting periods beginning on or after 1 January 2013. HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

**HKFRS 11 - Joint Arrangements**

The standard is effective for accounting periods beginning on or after 1 January 2013. Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognise its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for assets and liabilities.

**HKFRS 12 - Disclosure of Interests in Other Entities**

The standard is effective for accounting periods beginning on or after 1 January 2013. HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

The Directors are in the process of making an assessment of the potential impact of these new or amended HKFRSs and so far concluded that the application of these new or amended HKFRSs will have no material impact on the Group's financial statements.

## 3. TURNOVER AND SEGMENT INFORMATION

The Group has identified the following reportable segments:

(i) Cyanoacetic acid and its ester products: Research and development, manufacture and sale of cyanoacetic acid and its ester products;

(ii) Sodium cyanide and its derivative products: Research and development, manufacture and sale of sodium cyanide and its derivative products;

(iii) Alcohol products: Research and development, manufacture and sale of alcohol products;

(iv) Chloroacetic acid and its derivative products: Research and development, manufacture and sale of chloroacetic acid and its derivative products;

(v) Fine petrochemical products: Research and development, manufacture and sale of fine petrochemical products; and

(vi) Other by-products: Sale of other by-products, e.g. steam.

Each of these operating segments is managed separately as each of the product 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.

## TURNOVER

| | FOR THE YEAR ENDED 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Sales of cyanoacetic acid and its ester products | **787,868** | 752,322 |
| Sales of sodium cyanide and its derivative products | **94,610** | 91,946 |
| Sales of alcohol products | **43,121** | 63,955 |
| Sales of chloroacetic acid and its derivative products | **32,661** | 16,158 |
| Sales of fine petrochemical products | **30,200** | 37,092 |
| Sales of other by-products | **15,435** | 10,690 |
| | **1,003,895** | 972,163 |

## SEGMENT INFORMATION

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

**2012**

| | Cyanoacetic acid and its ester products | Sodium cyanide and its derivative products | Alcohol products | Chloroacetic acid and its derivative products | Fine petrochemical products | Other by-products | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Revenue:** | | | | | | | |
| From external customers | 787,868 | 94,610 | 43,121 | 32,661 | 30,200 | 15,435 | 1,003,895 |
| Inter-segment revenue | - | - | 74,824 | 230,788 | 20,678 | - | 326,290 |
| Reportable segment revenue | 787,868 | 94,610 | 117,945 | 263,449 | 50,878 | 15,435 | 1,330,185 |
| Reportable segment profit | 200,081 | 24,825 | 8,913 | 123,864 | 2,075 | 4,819 | 364,577 |
| Depreciation of property, plant and equipment | 16,456 | 5,868 | 498 | 9,850 | 272 | 6,199 | 39,143 |
| Reversal of write-down of inventories to net realisable value | - | - | - | - | 230 | - | 230 |
| Write-down of inventories to net realisable value | 140 | - | - | - | 49 | - | 189 |
| Reportable segment assets | 347,430 | 98,539 | 27,047 | 98,661 | 16,433 | 70,185 | 658,295 |
| Additions to non-current segment assets | 23,118 | 56,166 | - | 15,580 | - | 143 | 95,007 |
| Reportable segment liabilities | 20,016 | 14,921 | 4,689 | 10,840 | 14,074 | 1,474 | 66,014 |

2011

| | Cyanoacetic acid and its ester products RMB'000 | Sodium cyanide and its derivative products RMB'000 | Alcohol products RMB'000 | Chloroacetic acid and its derivative products RMB'000 | Fine petrochemical products RMB'000 | Other by-products RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | |
| From external customers | 752,322 | 91,946 | 63,955 | 16,158 | 37,092 | 10,690 | 972,163 |
| Inter-segment revenue | - | - | 39,028 | 214,127 | - | 991 | 254,146 |
| Reportable segment revenue | 752,322 | 91,946 | 102,983 | 230,285 | 37,092 | 11,681 | 1,226,309 |
| Reportable segment profit | 163,853 | 20,559 | 5,929 | 89,461 | 1,476 | 2,820 | 284,098 |
| Depreciation of property, plant and equipment | 14,868 | 5,668 | 388 | 7,981 | 338 | 6,140 | 35,383 |
| Reversal of write-down of inventories to net realisable value | 12 | - | 142 | 1,528 | 314 | - | 1,996 |
| Reportable segment assets | 320,251 | 52,077 | 25,070 | 91,383 | 35,814 | 81,884 | 606,479 |
| Additions to non-current segment assets | 15,723 | 1,890 | 253 | 21,960 | - | 728 | 40,554 |
| Reportable segment liabilities | 25,357 | 8,308 | 1,063 | 13,181 | 34,303 | 5,672 | 87,884 |

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

| | FOR THE YEAR ENDED 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Reportable segment revenue | **1,330,185** | 1,226,309 |
| Elimination of inter-segment revenue | **(326,290)** | (254,146) |
| **Consolidated revenue** | **1,003,895** | 972,163 |

| | FOR THE YEAR ENDED 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Reportable segment profit | **364,577** | 284,098 |
| Rental income | **837** | 555 |
| Revaluation gain on investment properties | **590** | 230 |
| Share of profit of a jointly controlled entity | **373** | - |
| Equity-settled share-based payment expenses | **(162)** | (1,020) |
| Fair value loss on derivative financial instruments | **(6,990)** | - |
| Finance costs | **(8,692)** | (6,642) |
| Corporate unallocated income | **1,280** | 1,283 |
| Corporate unallocated expenses | **(35,161)** | (34,447) |
| Elimination of inter-segment profit | **(119,826)** | (82,436) |
| **Consolidated profit before income tax** | **196,826** | 161,621 |

| | AS AT 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Reportable segment assets | **658,295** | 606,479 |
| Interest in a jointly controlled entity | **48,511** | - |
| Prepaid land lease payments | **55,294** | 56,587 |
| Investment properties | **13,030** | 12,440 |
| Deferred tax assets | **-** | 63 |
| Amount due from a jointly controlled entity | **443** | - |
| Pledged bank deposits | **-** | 13,400 |
| Bank and cash balances | **49,962** | 63,889 |
| Property, plant and equipment | **112,006** | 101,877 |
| Other corporate assets | **23,069** | 3,516 |
| **Consolidated total assets** | **960,610** | 858,251 |

| | AS AT 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Reportable segment liabilities | **66,014** | 87,884 |
| Bank borrowings | **74,000** | 109,000 |
| Deferred tax liabilities | **2,663** | 2,463 |
| Current tax liabilities | **13,421** | 9,681 |
| Derivative financial instruments | **6,990** | - |
| Other corporate liabilities | **29,731** | 19,552 |
| **Consolidated total liabilities** | **192,819** | 228,580 |

The Group's revenues from external customers are divided into the following geographical areas:

| | FOR THE YEAR ENDED 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| The PRC (domicile) | **787,279** | 772,001 |
| Taiwan | **47,992** | 37,762 |
| United States of America | **32,651** | 31,395 |
| India | **32,276** | 21,041 |
| Spain | **19,369** | 7,840 |
| Ireland | **16,592** | 18,510 |
| Germany | **17,671** | 15,089 |
| Others | **50,065** | 68,525 |
| | **1,003,895** | 972,163 |

The geographical location of customers is based on the location at which the goods delivered. No geographical location of the non-current assets is presented as the substantial non-current assets are physically based in the PRC.

Certain comparative figures in the segment information for the year ended 31 December 2011 has been reclassified. Previously, sodium cyanide and its derivative products were reported under the segment of cyanoacetic acid and its ester products. For the year ended 31 December 2012, sodium cyanide and its derivative products were reported as a separate segment as a result of the change in information reported internally for the purpose of resources allocation and assessment of business performance. Comparative figures have been reclassified accordingly.

## 4. PROFIT BEFORE INCOME TAX

| | FOR THE YEAR ENDED 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Profit before income tax is arrived at after charging/(crediting): | | |
| Directors' remuneration | | |
| - Fees | **310** | 314 |
| - Salaries and allowances | **3,544** | 3,363 |
| - Retirement benefit scheme contributions | **78** | 72 |
| | **3,932** | 3,749 |
| Other staff costs | **49,826** | 43,407 |
| Retirement benefit scheme contributions | **3,086** | 2,533 |
| Equity-settled share-based payment expenses | **162** | 1,020 |
| Total staff costs | **57,006** | 50,709 |
| Auditors' remuneration | **528** | 462 |
| Amortisation of prepaid land lease payments | **1,293** | 1,293 |
| Cost of inventories recognised as an expense (note), including | **725,186** | 736,654 |
| - Write-down of inventories to net realisable value | **189** | - |
| - Reversal of write-down of inventories to net realisable value | **(230)** | (1,996) |
| Depreciation on property, plant and equipment | **44,203** | 40,527 |
| Exchange losses, net | **436** | 1,599 |
| (Gain)/Loss on disposals of property, plant and equipment | **(12)** | 5 |
| Written off on property, plant and equipment | **174** | - |
| Minimum lease payments under operating leases in respect of leasehold land and buildings | **663** | 594 |
| Rental income less outgoings | **(823)** | (496) |
| Direct operating expenses arising from investment properties that generated rental income during the year | **14** | 59 |
| Research costs | **2,187** | 1,810 |

Note: Cost of inventories includes RMB41,884,000 (2011: RMB38,123,000) relating to depreciation expenses and RMB42,180,000 (2011: RMB36,657,000) relating to staff costs.

The write-down of inventories of RMB230,000 (2011: RMB1,996,000) was reversed as the market price of these inventories was increased in 2012.

## 5. INCOME TAX EXPENSE

| | FOR THE YEAR ENDED 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Current tax - PRC Enterprise Income Tax | **37,381** | 29,088 |
| Deferred tax | **263** | 173 |
| Income tax expense | **37,644** | 29,261 |

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor derives from Hong Kong.

Weifang Common Chem Co., Ltd.（濰坊同業化學有限公司）and Weifang Parasia Chem Co., Ltd.（濰坊柏立化學有限公司）are subject to the PRC Enterprise Income Tax at the rate of 25% for 2012 (2011: 25%).

Shanghai Dehong Chemical Company Limited(上海德弘化工有限公司)is subject to the PRC Enterprise Income Tax at the rate of 25% for 2012 (2011: 24%, being the applicable tax rate in Shanghai Pudong New District, the PRC).

Pursuant to the relevant laws and regulations in the PRC, Weifang Binhai Petro-Chem Co., Ltd.（濰坊濱海石油化工有限公司）("**Weifang Binhai**") is eligible for certain tax holidays and concessions in the PRC. The tax holidays 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 Binhai at the preferential rate of 12.5% for 2012 (2011: 12.5%) as this was the fifth profitable year.

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 income over the useful lives of the relevant assets. Such income is taxable for the year in which it is released to profit or loss.

## 6. DIVIDENDS PER SHARE

A final dividend for 2011 amounting to RMB20,760,000 (dividend per share: 3.0 HKcents) was approved in the annual general meeting of the Company held on 25 May 2012 and paid during the year ended 31 December 2012. The Directors recommend the payment of a final dividend amounting to RMB25,750,000 (dividend per share: 3.8 HKcents) in respect of the year ended 31 December 2012, which is subject to approval by the shareholders of the Company (the "**Shareholders**") in its forthcoming annual general meeting (the "**2013 AGM**").

## 7. EARNINGS PER SHARE

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

| | **FOR THE YEAR ENDED 31 DECEMBER** | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| Profit for the year | **159,182** | 132,360 |

| | **NUMBER OF ORDINARY SHARES** | |
|---|---|---|
| | **2012** | 2011 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **846,878,000** | 846,229,704 |
| Effect of dilutive potential ordinary shares: | | |
| - Share options | **-** | 399,646 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **846,878,000** | 846,629,350 |

The calculation of basic earnings per share for the year ended 31 December 2012 was based on the profit attributable to the owners of the Company of RMB159,182,000 (2011: RMB132,360,000) and on the weighted average of 846,878,000 (2011: 846,229,704) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares for the year ended 31 December 2012 (2011: the calculation of diluted earnings per share was based on the profit attributable to the owners of the Company of RMB132,360,000 and the weighted average of 846,629,350 ordinary shares in issue during the year, as used in the basic earnings per share calculation plus the weighted average of 399,646 ordinary shares deemed to be issued at no consideration as if all the Company's share options have been exercised).

## 8. 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:

| | AS AT 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0 to 90 days | **177,754** | 179,374 |
| 91 to 180 days | **31,167** | 28,647 |
| 181 to 365 days | **1,622** | 2,259 |
| Over 365 days | **123** | 68 |
| | **210,666** | 210,348 |

## 9. 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:

| | AS AT 31 DECEMBER | |
|---|---|---|
| | **2012** | 2011 |
| | **RMB'000** | RMB'000 |
| 0 to 90 days | **15,865** | 36,914 |
| 91 to 180 days | **757** | 310 |
| 181 to 365 days | **480** | 414 |
| Over 365 days | **396** | 213 |
| | **17,498** | 37,851 |

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the Shareholders who are entitled to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013, both days inclusive. In order to qualify for the right to attend and vote at the 2013 AGM, all transfers accompanied by the relevant share certificates should be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716 on the 17th Floor of Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 21 May 2013.

For the purpose of ascertaining Shareholders who qualify for the proposed final dividend in respect of the year ended 31 December 2012, the register of members of the Company will be closed from Monday, 3 June 2013 to Wednesday, 5 June 2013, both days inclusive. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates should be lodged with the Company's share registrar and transfer office in Hong

Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716 on the 17th Floor of Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 31 May 2013.

## BUSINESS REVIEW

During the year under review, leverage on the new products continuously launched in previous years that expanded market coverage of the downstream industries and stimulated the growth of sales, the turnover of the Group continuously delivered a positive growth even though the overall selling prices have been decreased as compared with last year. Turnover of the Group derived from domestic market continued to be the key contribution, accounted for 78.4% of total turnover of the Group, while turnover derived from overseas accounted for the balance 21.6%. Meanwhile, the Group improved productivity and operational efficiency through optimised production processes, upgraded the production facilities with advanced technology and enhanced economies of scale to curb the rising of labour costs and overheads, as well as improving the procurement processes to purchase materials at lower price. The gross profit and gross margin of the Group have improved impressively because of the above combined efforts. Along with effective operating expense controls, the Group performed a better profit level during the year under review.

In view of projected production capacities unable to satisfy robust market demands in respect of products with good market potential, the Group has devoted more efforts and resources in enhancement of its production efficiencies and capacities since the prior financial year. The past investments paid off in achieving cost savings and turnover growth to the Group during the year under review. Besides, in order to meet the future demand as business expanding and further promote the energy conservation and emission reduction, the Group has implemented a comprehensive plan to consolidate the existing production lines during the year under review. This does not only help to enlarge the overall production capacities and uplift the productivity but also facilitate energy conversation in long term.

As new product development is an essential strategy to sustain the business development and growth of the Group, the Group was consistently developing new products during the year under review and the production lines for such new products will be constructed in next financial year. Uninterrupted innovative development enabled the Group to continue to raise its competitiveness, supplemented with ongoing improvements in its productivity, it will shape the main driver of sustain business growth of the Group.

### Cyanoacetic acid and its ester products

Cyanoacetic acid and its ester products are still the main business segment of the Group, which has performed a strong turnover growth during the year under review as a result from the new products launched to expand the market coverage and improved production capacities which driven the growth of turnover. The turnover of such products category was accounting for 78.5% (2011: 77.4%) of the Group's total turnover. The profit from this products category was obviously higher than the previous financial year mainly because of enhanced economies of scales, improved synergies of vertically integrated production and the optimised production processes to trim the production costs effectively. Currently, the buoyancy in demand of this products category provided a good opportunity to the Group for its further development. The Group will continue to enhance its competitive advantages of such products category with a focus on the product innovation and development and improvement of productivity to secure its leading position in the industry. It is expected that the performance of this products category would at the minimum be keep pace with market organic growth in future.

**Sodium cyanide and its derivative products**

Sodium cyanide and its derivative products are core products of the Group, which have been differentiated from cyanoacetic acid and its ester products category with the aim to closely monitor the market development of this products category. A certain portion of outputs from this products category has been consumed internally and the remaining balance was sold externally. As the continuous growing demands both internally and externally in recent years, the Group has also developed certain downstream products to explore new markets during the year under review as the Directors considered that there will be good potential growth for this products category in future by capitalising the existing competitive edge of the Group. The preparation and construction works of new production lines are ongoing up to the date of this announcement and it is anticipated that the new products will be launched in financial year of 2014. The Group will closely monitor the market development of this products category and make decisive measures to grasp development opportunities in future.

**Alcohol products**

This products category is mainly for internal consumption so it is important to maintain stable internal supply while seeking external sale. During the year under review, the turnover declined was resulted from limited market space. In light of an effective sales and marketing strategy and improved procurement process, the profit of this products category has been improved ultimately. The Group will maintain appropriated production and operation for the development of such products category in future.

**Chloroacetic acid and its derivative products**

In line with the Group's expectation, chloroacetic acid and its derivative products kept a rapid and healthy growth momentum through the continuous expansion of production capacities to meet surging market demands. Both the turnover and profit have achieved continuously prominent growth during the year under review. The growth rate of the profit margin was faster than the turnover, which implied that there is still a room for the further growth of this product category in future. Chloroacetic acid and its derivative products were the core materials for cyanoacetic acid and its ester products and mainly for internal consumption in the past. In order to cater for the buoyant external market demands, the fourth phase production expansion of this products category has been completed during the year under review. The enhancement of productivity efficiency is not only allowed the Group to take a bigger slice of market share and fulfill the promotion of recycling economy production and utilisation of internal resources fully from internal supply for further costs saving but also helps to strengthen the competitiveness edge of the Group. The Group will focus on the development of this products category and make further expansion of the production capacity onwards as and when appropriate.

**Fine petrochemical products**

During the year under review, the fine petrochemical products still delivered positive results was mainly due to the improved procurement process that sourcing materials at lower price to reduce the production costs. Given to the dwindling orders and shrinking margins limited the further development of such products category, the outlook of this products category is modest. The Group decided to reallocate the production facilities of a profitless product to other potential products during the year under review. The move allows the Group to fully utilise its resources in promising areas. However, the Group will still keep maintaining the development of profitable products within this products category.

**Joint venture**

During the year under review, the jointly controlled entity (the "**JV Company**") has been duly established and all the pre-operating activities have been kick-started on schedule and progressing smoothly. Up to the date of this announcement, the JV Company has accelerated the progress of the construction of production plant and facilities. Barring any unforeseen circumstance, the Group expected the construction works as well as the sales and distribution networks would be in place within next financial year, the commercial productions and operations would be commenced in foreseeable future. Hence, it is anticipated that the Group would bear the substantial pre-operating expenses of JV Company in coming financial year in proportion to the Group's equity interest.

## OUTLOOK

The macro-economic environment remains challenging. US apparently are undergoing a slow but gradually recovery process. For the Eurozone, financial turmoil is still affecting certain members of the European Union and inflationary pressure in the PRC together with RMB appreciation pressure etc., have negative impact on consumer demands. Despite of these, the Group has well-positioned its business and right development strategies, equipped with innovative products development, strengthened productivity, efficient productions and operations. These measures will facilitate the Group to seize new business opportunities and achieve business growth.

Looking forward, it is essential for the Group to work even harder to remain on a successful path. The Group will continue to monitor its operations and implement various measures to further rationalize and reduce the cost base. The long term business strategy of the Group is to leverage its core competitive advantages as an integrated fine chemical company to grow the downstream chemicals businesses of the Group by replicating the proven business model of the Group. In line with such core competitive strategies of the Group, the Group will continuously focus on products development to exploit new markets for new streams of revenue and further enhance the production capacities of good potential products with improvement of existing technologies in energy-saving production to maintain the Group's leading position in the industry.

The Directors have confidence in the strengths and solid foundation of the Group to capture the growth opportunities going forward. The Directors also believe that the Group will be capable to maximize Shareholder value in future.

## FINANCIAL REVIEW

## TURNOVER

The Group continuously enhanced the production capacity of products with good market potential in prior years to seize market share and boost the growth of turnover. However, the sales performance was neutralized by the decline of selling price as a result of tightening economic measures implemented by the PRC government to curb inflation and the over-heating economy during the year under review. The Group's turnover increased slightly to approximately RMB1,003.9 million, representing an increase of 3.3% as compared with that of approximately RMB972.2 million in 2011.

## GROSS PROFIT

The gross profit of the Group has noticeably increased to approximately RMB 261.6 million, representing an increase of 19.0% as compared with approximately RMB219.8 million in 2011 while the gross profit margin was also grew by 3.5% to 26.1% when compared with 22.6% in 2011. The increase is mainly due to (i) the decrease of materials price; (ii) improvement in procurement process allowed sourcing materials at lower price; and (iii) the enhanced productivity and streamlined production processes helped to save costs further.

## OPERATING INCOME AND EXPENSES

The other income was mainly comprised (i) release of deferred income; (ii) sundry income; (iii) rental income; (iv) interest income; and (v) government grants during the year under review.

The selling expenses were slightly increased by RMB0.6 million to approximately RMB22.2 million (2011: RMB21.6 million) during the year under review. Such slight increase was principally as a result of the increase in the transportation costs which was in line with the growth of turnover of the Group, whereas the sales commission continuously decreased as the proportion of direct sales to total sales further increased. Sales commission was not required to pay for direct sales. The selling expenses as a percentage of the Group's turnover were fairly stable at 2.2% (2011: 2.2%).

As a result of the stringent costs control and streamlining of operations implemented by the Group during the year under review, the administrative expenses decreased by approximately RMB1.3 million from approximately RMB35.1 million in 2011 to approximately RMB33.8 million in 2012. Such decrease was mainly due to the decrease of exchange loss, repairs and maintenance, and bank charges. Administrative expenses expressed as a percentage of the Group's turnover were 3.4% in 2012 (2011: 3.6%).

## FINANCE COSTS

The finance costs mainly represented bank borrowings interest and discounted bills interest, which was increased by approximately RMB2.1 million from approximately RMB6.6 million in 2011 to approximately RMB8.7 million in 2012. The increase was mainly due to the increase in bank borrowings interest rate during the year under review. The bank borrowings of the Group were mainly used in financing the capital expenditure and general working capital requirements of the Group.

## FAIR VALUE LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

On 30 June 2011, the Company entered into a joint venture agreement (the "**JV Agreement**") with Henkel Hong Kong Limited ("**Henkel**") to set up a JV Company for developing a specialty chemical for industrial use product and the JV Agreement became effective from 23 February 2012. Under the JV Agreement, (i) the Company is granted with a call option to require Henkel to sell or cause the sale of all of the shares of the JV Company held by Henkel and/or its affiliates to the Company at the call option price; and (ii) Henkel is granted with a put option to require the Company to purchase or cause the purchase of all of the shares of the

JV Company held by Henkel and/or its affiliates at the put option price. Such options can only be exercised during the option period which set on a specified future dates (please refer to the announcement of the Company dated 3 July 2011 for details). Thus, the JV Agreement deemed to contain embedded derivative which is required to be carried at fair value. For the year ended 31 December 2012, the fair value loss on the embedded derivative financial instruments was determined to be approximately RMB7.0 million, based on the following significant assumptions:

Valuation method: Binomial Lattice Model
Risk free rate: 2.32% p.a.

## PROFIT FOR THE YEAR

Given the aforesaid improvement measures, the profit of the Group for the year has recorded an increase of approximately RMB26.8 million to approximately RMB159.2 million, representing an increase of 20.3% as compared with that of approximately RMB132.4 million in 2011.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's primary source of funding included the net cash inflow generated from operating activities of approximately RMB218.6 million (2011: RMB91.3 million); newly raised bank borrowings of approximately RMB104.1 million (2011: RMB124.3 million); no proceed from the issuing of new Shares (2011: RMB1.2 million); interest income of approximately RMB0.5 million (2011: RMB0.4 million); proceeds on disposal of property, plant and equipment of approximately RMB0.06 million (2011: RMB0.07 million) and no proceed on disposal of prepaid land leased payment (2011: RMB26.8 million). With the financial resources obtained from the Group's operations, the Group had spent approximately RMB133.3 million (2011: RMB75.0 million) in the acquisition of the property, plant and equipment; investment in a jointly controlled entity approximately RMB48.4 million (2011: Nil); borrowing repayments of approximately RMB139.1 million (2011: RMB105.2 million); interest paid of approximately RMB8.8 million (2011: RMB6.7 million) and dividend paid of approximately RMB20.8 million (2011: RMB32.0 million) during the year under review. As at 31 December 2012, the Group had pledged bank deposit and bank and cash balances of approximately RMB50.0 million (2011: RMB77.3 million), of which 94.1% was held in Renminbi, 5.6% was held in United States dollars and the remaining balance was held in Hong Kong dollars and EUROs. During the year under review, the Group did not use any financial instruments for any hedging purposes.

As at 31 December 2012, the Group had recorded net current assets of approximately RMB196.8 million (2011: RMB217.6 million), the current ratio of the Group was approximately 2.3 times (2011: 2.3 times), bank borrowings of approximately RMB74.0 million (2011: RMB109.0 million) and the gearing ratio which is represented by the ratio of net debts (total borrowings net of bank and cash balances and pledged bank deposits) to total shareholders' equity, was further decreased to approximately 3.1% (2011: 5.0%).

With the continuous positive cash inflow generated from its operations and its existing cash resources and undrawn banking facilities obtained from its banks, the Group has sufficient financial resources to meet its commitments and working capital requirements. The Group will continuously monitor its cash outflow closely and cautiously in the coming years and dedicate to maintain a sound financial position and improve the equity return to Shareholders.

## PLEDGE OF ASSETS

As at 31 December 2012, no bank deposits (2011: RMB13.4 million) was pledged for bills and letter of credit facilities. Prepaid land lease payments of the Group of approximately RMB30.3 million (2011: RMB23.5 million) were pledged to secure the Group's bank borrowings.

## CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no material contingent liabilities.

## COMMITMENTS

As at 31 December 2012, the Group had commitments which has been contracted but not yet been provided for in the aggregate amount of approximately RMB115.7 million (2011: RMB150.3 million), among of that approximately RMB98.8 million (2011: RMB145.5 million) relating to the commitment for the joint venture project and the rest for purchases of property, plant and equipment as well as construction in progress, while the capital commitment for authorised but not yet been contracted for in the aggregate amount of approximately RMB50.2 million (2011: RMB87.9 million) is relating to the purchases of property, plant and equipment as well as construction in progress.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

The Group's foremost exposure to the foreign exchange fluctuations was caused by the appreciation of Renminbi during the year under review. Most of the Group's income and expenses are denominated in RMB except for export sales which were, in majority, denominated in United States dollars. However, 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 year under review. Besides, the Group will consider cost-efficient hedging methods in future foreign currency transactions as and when appropriate.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group has 903 full-time employees (2011: 896) of whom 810 were production and warehouse employees, 17 were sales and marketing employees, 17 were research and development centre employees, and 59 were management and back-office supporting employees. The slight increase in the number of employees was in line with the expansion in business activities during the year under review.

For the year under review, the total staff costs incurred including directors' remuneration increased to approximately RMB57.0 million (2011: RMB50.7 million).

The Group has established its human resources policies and scheme with a view to deploying the incentives and rewards of the remuneration system which includes 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 coverage and provident funds, have also been provided to the employees of the Group.

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

The Company 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. During the year under review, no share option of the Company has been granted.

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

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the requirements set out in the "Code on Corporate Governance Practices" (revised and renamed as "Corporate Governance Code and Corporate Governance Report" with effect from 1 April 2012) contained in Appendix 14 of the Listing Rules during the year under review.

## MODEL CODES FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his compliance with the Model Code for the financial year ended 31 December 2012. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished price sensitive information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the year under review.

## AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises the three independent non-executive Directors, namely, Mr. Leung Kam Wan, Mr. Liu Chenguang and Mr. Gao Baoyu. Mr. Leung is the chairman of the Audit Committee and he possesses recognised professional qualifications in accounting required by the Listing Rule.

The Audit Committee has reviewed the full year financial statements and reports of the Group for the year ended 31 December 2012. The Audit Committee was satisfied that the accounting policies and methods of computation adopted by the Group are in accordance with the current best practices in Hong Kong. The Audit Committee found no unusual items that were omitted from the financial statements and was satisfied with the disclosures of data and explanations shown in the financial statements. The Audit Committee was also reviewed the internal control measures adopted by the Group during the year under review.

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

Hong Kong, 22 March 2013

*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. Gao Baoyu, Mr. Leung Kam Wan and Mr. Liu Chenguang.*