HUBEI SANONDA CO., LTD
ANNUAL REPORT 2010

March 2011

Important Notes

1. The Board of Directors and the Supervisory Board as well as Directors, Supervisors and Senior Executives of Hubei Sanonda Co., Ltd. (hereinafter referred to as the Company) hereby confirm that no omission, misstatement, or misleading information exists in this report, and accept, individually and collectively, the responsibilities for the authenticity, accuracy and completeness of the contents of this report.
2. All directors attended and voted at the 24th Session of the 5th Board of Directors of the Company.
3. RSM China Certified Public Accounts Co., Ltd. has audited the 2010 Financial Reports of the Company and issued an unqualified Auditors' Report for the Company.
4. Mr. Li Zuorong, Chairman of the Board of the Company, Mr. He Xuesong, Chief Financial Officer and concurrently Person who is in Charge of Accounting Organ, hereby confirm that the Financial Report enclosed in this Annual Report is true and complete.

Content

Section I. Company Profile

1. Legal name of the Company:
   In Chinese: 湖北沙隆达股份有限公司
   Abbr. in Chinese: 沙隆达
   In English: HUBEI SANONDA CO., LTD.
   Abbr. in English: SANONDA
2. Legal Representative: Li Zuorong
3. Secretary of the Board of Directors: Li Zhongxi
   Securities Affairs Representative: Liang Jiqin
   Tel: (86) 0716-8208632, 8208632
   Fax: (86) 0716-8321099
   E-mail: freefly2006@263.net
   Contact Address: No. 93, Beijing East Road, Jingzhou, Hubei
4. Registered Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Office Address: No. 93, Beijing East Road, Jingzhou, Hubei
   Post Code: 434001
   Internet Website of the Company: http://www.sanonda.cn
   E-mail of the Company: sld@chemchina.com.cn
5. Newspaper for Disclosing the Information Chosen by the Company:
   China Securities Journal, Securities Times and Ta Kung Pao
   Internet Website Designated by CSRC for Publishing the Annual Report of the Company: http://www.cninfo.com.cn
   The Place Where the Annual Report is Prepared and Placed: Office of the Company
6. Stock Exchange Listed With: Shenzhen Stock Exchange
   Short Form of the Stock: Sanonda A, Sanonda B
   Stock Code: 000553, 200553
7. Other Relevant Information of the Company
   Date of initial registration: Nov. 30, 1993
   Initial registration organization: Hebei Province Administration Bureau for Industry and Commerce
   Date of latest change of registration: Dec. 27, 2009
   Registration code of corporate business license: 420000400004491
   Organization Code: 70696228-7
   Registration code of taxation: 421001706962287
   Name and office address of Certified Public Accountants engaged by the Company:
   Domestic: RSM China Certified Public Accounts Co., Ltd.
   Office Address: 8-9/F, Block A, Corporate Square, 35 Financial Street, Xicheng District, Beijing, PRC

Section II. Summary of Accounting Highlight and Business Highlight

I. Accounting highlight in fiscal year of 2010

Unit: RMB Yuan

Operating profit	29,767,081.14
Total profit	31,880,662.34
Net profit attributable to shareholders of listed company	23,807,551.48
Net profit attributable to shareholders of listed company after deducting non-recurring gains and losses	25,817,333.08
Net cash flow from the operation activities	70,222,290.82

Note: Impact on net profit due from non-recurring gains and losses was RMB -2,009,781.60, the composing are as follows:

Unit: RMB Yuan

Items	Amount	Note (if applicable)
Gains and losses from disposal of non-current assets	-1,302,788.12	
Government subsidies recorded into current gains and losses, excluding those related closely to the routine business of the Company and continuously enjoyed by the Company at fixed amounts or ratios according to state policies and regulations	4,781,047.84	
Other non-operating income/expense	-1,364,678.52	
Other items of gains and losses fitting the definition of non-recurring gains and losses	-4,850,000.00	Fees paid by the Company to Sanonda Group Corporation and China National Agrochemical Corporation for guarantees they provided for the Company
Income tax effects	684,104.70	
Minority interests effects	42,532.50	
Total	-2,009,781.60	-

II. Key accounting data and financial indexes in the recent 3 years

1. Major accounting data

Unit: RMB Yuan

	2010	2009	Increase/decrease year-on-year (%)	2008
Gross revenues (Yuan)	1,570,114,175.60	1,650,444,264.94	-4.87%	2,217,343,196.68
Total profit (Yuan)	31,880,662.34	30,791,072.35	3.54%	220,160,318.39
Net profit attributable to the Company's shareholders (Yuan)	23,807,551.48	19,310,850.13	23.29%	159,892,332.65
Net profit attributable to the Company's shareholders after deducting non-recurring gains and losses (Yuan)	25,817,333.08	832,707.17	3,000.41%	172,732,029.22
Net cash flows from operating activities (Yuan)	70,222,290.82	188,263,787.62	-62.70%	352,801,347.00
	31 Dec. 2010	31 Dec. 2009	Increase/decrease year-on-year (%)	31 Dec. 2008
Total assets (Yuan)	2,014,857,636.00	2,039,070,607.41	-1.19%	2,049,481,852.69
Owners' equity attributable to the Company's	1,105,608,076.51	1,087,987,662.96	1.62%	1,098,118,236.94

shareholders (Yuan)				
Share capital (share)	593,923,220.00	593,923,220.00	0.00%	593,923,220.00

2. Major financial indexes

Unit: RMB Yuan

	2010	2009	Increase/decrease year-on-year (%)	2008
Basic earnings per share (Yuan/share)	0.0401	0.0325	23.38%	0.2692
Diluted earnings per share (Yuan/share)	0.0401	0.0325	23.38%	0.2692
Basic earnings per share after deducting non-recurring gains and losses (Yuan/share)	0.0435	0.0014	3,007.14%	0.2908
Weighted average return on net assets (%)	2.17%	1.77%	0.40%	15.91%
Weighted average return on net assets after deducting non-recurring gains and losses (%)	2.35%	0.08%	2.27%	17.18%
Net cash flows per share from operating activities (Yuan/share)	0.12	0.32	-62.50%	0.59
	31 Dec. 2010	31 Dec. 2009	Increase/decrease year-on-year (%)	2008 年末
Net assets per share attributable to the Company's shareholders (Yuan/share)	1.86	1.83	1.64%	1.85

3. Difference under PRC GAAP and IAS

Unit: RMB Yuan

	Net profit attributable to shareholders of the listed company		Owners' equity attributable to shareholders of the listed company	
	Amount in 2010	Amount in 2009	Closing amount	Opening amount
Under IAS	23,807,551.48	19,310,850.13	1,105,608,076.51	1,087,987,662.96
Under PRC GAAP	23,807,551.48	19,310,850.13	1,105,608,076.51	1,087,987,662.96
Adjusted under IAS:				
Total difference under PRC GAAP and IAS	0.00	0.00	0.00	0.00
Explanation on the difference under PRC GAAP and IAS	No difference			

Section III. Changes in Capital Shares and Particulars about Shareholders

I. Changes in share capital

1. Statement of changes in share capital

Unit: Share

	Prior to the change		Increase/decrease (+,-)					Subsequent to the change	
	Number	Proportion	Issuance of new shares	Bonus shares	Capitalization of reserved fund	Other	Subtotal	Number	Proportion
I. Shares subject to trading moratorium	42,712	0.01%						42,712	0.01%
1. Shares held by the state									
2. Shares held by state-owned corporations									
3. Shares held by other domestic investors									
Including: Shares held by domestic non-state-owned corporations									
Shares held by domestic natural persons									
4. Shares held by overseas investors									
Including: Shares held by overseas corporations									
Shares held by overseas natural persons									
5. Shares held by senior executives	42,712	0.01%						42,712	0.01%
II. Shares not subject to trading moratorium	593,880,508	99.99%						593,880,508	99.99%
1. RMB ordinary shares	363,880,508	61.27%						363,880,508	61.27%
2. Domestically listed foreign shares	230,000,000	38.73%						230,000,000	38.73%
3. Overseas listed foreign shares									
4. Others									
III. Total number of shares	593,923,220	100.00%						593,923,220	100.00%

2. There were no changes in shares subject to trading moratorium in the reporting period.

3. Particulars about issuance and listing of shares

(1) Over the previous three years as at the end of the reporting period, neither issuance

of securities nor listing occurred in the Company.

(2) In the reporting period, the total shares and equity structure remained unchanged.

(3) There were no employ shares in the Company at present.

II. Particulars about the shareholders

1. Particulars about the shares held by the top ten shareholders and statement on shares not subject to trading moratorium held by the top ten shareholders

Unit: Share

Total number of shareholders					75295
Shares held by the top ten shareholders					
Name of shareholder	Nature	Shareholding ratio (%)	Total shares held	Shares subject to trading moratorium held	Shares pledged or frozen
Sanonda Group Corporation	State-owned corporation	20.02%	118,887,202	0	0
State-owned Assets Administration Bureau of Qichun County	On behalf of the state	0.70%	4,169,266	0	0
Li Dongliang	Domestic natural person	0.52%	3,105,223	0	0
Yuan Haixiang	Domestic natural person	0.51%	3,002,349	0	0
Huang Yangsheng	Domestic natural person	0.45%	2,678,950	0	0
Jingzhou Shashi District Union Rural Credit Cooperation	Domestic non-state-owned corporation	0.42%	2,500,000	0	0
Luo Qian	Domestic natural person	0.41%	2,435,666	0	0
Hong Qina	Domestic natural person	0.41%	2,412,494	0	0
Zhou Baoping	Domestic natural person	0.38%	2,254,327	0	0
Yang Shihui	Domestic natural person	0.37%	2,184,089	0	0

Shares held by the top ten shareholders holding shares not subject to trading moratorium		
Name of shareholder	Number of shares not subject to trading moratorium held by the shareholder	Type of shares
Sanonda Group Corporation	118,887,202	RMB ordinary shares
State-owned Assets Administration Bureau of Qichun County	4,169,266	RMB ordinary shares
Li Dongliang	3,105,223	RMB ordinary shares
Yuan Haixiang	3,002,349	RMB ordinary shares
Huang Yangsheng	2,678,950	RMB ordinary shares
Jingzhou Shashi District Union Rural Credit Cooperation	2,500,000	RMB ordinary shares
Luo Qian	2,435,666	RMB ordinary shares
Hong Qina	2,412,494	RMB ordinary shares
Zhou Baoping	2,254,327	RMB ordinary shares
Yang Shihui	2,184,089	RMB ordinary shares
Explanation on associated relationship among the above-mentioned shareholders or acting-in-concert	State-owned Assets Administration Bureau of Qichun County among the above shareholders holds shares of the Company on behalf of the state. There is no associated relationship among state-owned shareholders and state-owned corporate shareholders and shareholders holding shares not subject to trading moratorium. And the Company does not know whether there is any associated relationship among shareholders holding shares not subject to trading moratorium.	

Note: In the reporting period, shareholders of the Company totaling 75295, including 50204 shareholders of A-shares and 25091 shareholders of B-shares.

2. Specific information about the controlling shareholder and actual controller

(1) Controlling shareholder

Company Name: Sanonda Group Corporation

Legal Representative: Li Zuorong

Registered Capital: RMB 240.66 million

Date of Incorporation: 1994

Business Scope: manufacturing and selling of pesticides, chemicals and pharmaceutical products; import and export of pesticides, chemicals, agrochemicals, chemical machinery equipments and fittings; manufacturing and selling of chemical machinery equipments; manufacturing and installation of steel structures; chemical construction and installation; and house leasing.

(2) Actual controller

Company Name: China National Agrochemical Corporation

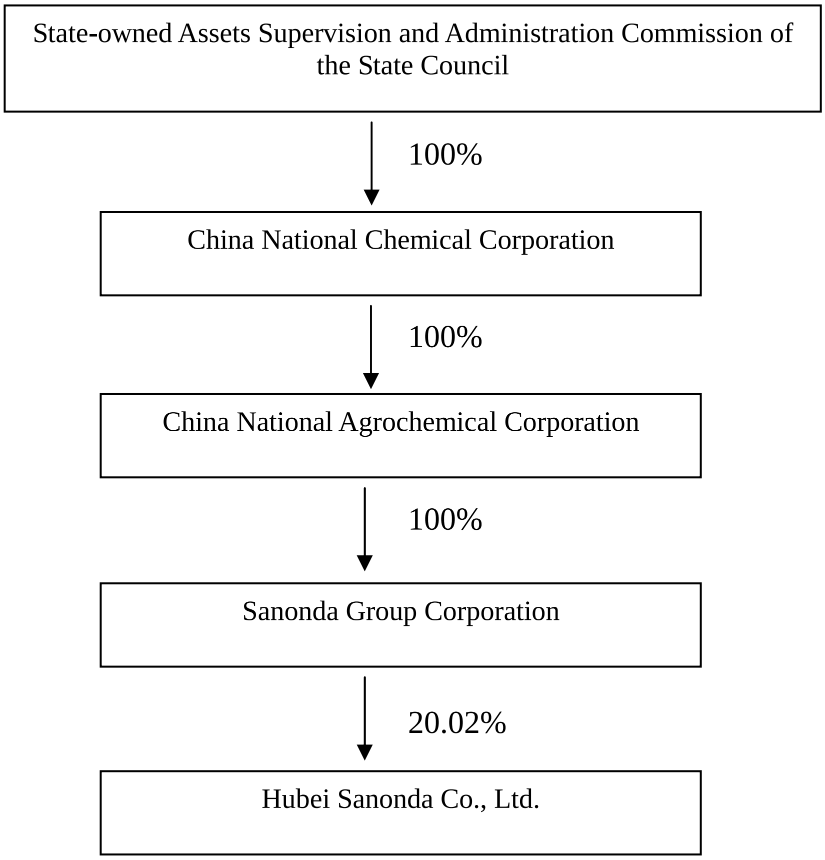
Registered Capital: RMB 459,710,634

As a large-scale wholly state-owned company, China National Agrochemical Corporation is a wholly-funded subsidiary of China National Chemical Corporation. And China National Agrochemical Corporation is principally engaged in investment, development, production and operation of pesticides, fertilizers, precision chemicals, mineral products, etc.. Incorporated in 2004 upon approval of the State Council, China National Chemical Corporation is a state-owned mega-company under the control of the State-owned Assets Supervision and Administration Commission of the State Council.

(3) Brief to change in controlling shareholder and actual controller

In the reporting period, controlling shareholder and actual controller remained unchanged.

(4) Relationship between the Company and its actual controller



3. There were no other corporate shareholders holding over 10% share of the Company in the reporting period.

Section IV. Particulars about Directors, Supervisors, Senior Management and Employees

I. Particulars about changes in shares held by directors, supervisors and senior management

1. Basic information of directors, supervisors and senior management and annual remuneration

Name	Title	Gender	Age	Beginning date of office term	Ending date of office term	Shares held at year-begin	Shares held at year-end	Reasons for change	Total payment received from the Company in the reporting period (RMB 0'000; before tax)	Whether receive payment from the shareholding units or other related parties or not
Li Zuorong	Chairman of the Board	Male	60	9 Jul. 2010	9 Jul. 2013	10,690	10,690		28.00	No
Liu Xingping	Director	Male	48	9 Jul. 2010	9 Jul. 2013	32,840	32,840		24.00	No
Liu Anping	Director, Standing Deputy General Manager	Male	43	9 Jul. 2010	9 Jul. 2013	0	0		22.00	No
He Xuesong	Director, CFO	Male	55	9 Jul. 2010	9 Jul. 2013	0	0		20.00	No
Deng Guobin	Director, Deputy General Manager	Male	43	9 Jul. 2010	9 Jul. 2013	4,880	4,880		20.00	No
Yin Hong	Director	Male	43	9 Jul. 2010	9 Jul. 2013	0	0		20.00	No
Li Hui	Independent Director	Female	42	9 Jul. 2010	9 Jul. 2013	0	0		4.80	No
Ai Qiuhong	Independent Director	Male	42	9 Jul. 2010	9 Jul. 2013	0	0		4.80	No
Zhang Huide	Independent Director	Female	46	9 Jul. 2010	9 Jul. 2013	0	0		2.40	No
Li Dejun	Independent Director	Male	53	9 Jul. 2010	9 Jul. 2013	0	0		2.40	No
Yang Guang	Assistant to GM	Male	38	19 Jul. 2010	9 Jul. 2013	0	0		18.00	No
Xie Chengli	Assistant to GM	Male	43	19 Jul. 2010	9 Jul. 2013	0	0		18.00	No
Zhang Jianguo	Chairman of the Supervisory Committee	Male	57	26 Feb. 2010	26 Feb. 2013	3,660	3,660		20.00	No
Liu Jun	Supervisor	Female	49	26 Feb. 2010	26 Feb. 2013	0	0		5.50	No
Jiang Chenggang	Supervisor	Male	36	26 Feb. 2010	26 Feb. 2013	0	0		5.50	No
Zhou Cheng	Supervisor	Male	41	26 Feb. 2010	26 Feb. 2013	0	0		5.50	No
Wu	Supervisor	Male	43	26 Feb. 2010	26 Feb. 2013	0	0		5.50	No

Hairong										
Li Zhongxi	Secretary to the Board	Male	40	19 Jul. 2010	9 Jul. 2013	0	0		15.00	No
Total	-	-	-	-	-	52,070	52,070	-	241.40	-

Note: In the reporting period, Independent Zhang Huide and Li Dejun with a work term dating from 9 Jun. 2010.

2. Particulars about the major work experiences of current directors, supervisors and senior executives in past 5 years:

Mr. Li Zuorong successively took the posts of workshop technician, workshop Director, Chief of Technology Section and Director of Design Office in Yuansha City Pesticide Plant. Later, he successively worked as Minister of project department, Deputy General Manager and Director of the Company. Since Dec. 2005, he has been acting as Chairman of the Board and Secretary of the CPC of the Company.

Mr. Liu Xingping successively took the posts of technician in Yuansha City Pesticide Plant, Director of Electrochemical Plant, as well as Director, Deputy General Manager, Vice Chairman of the Board and General Manager of the Company. Since Dec. 2005, he has been acting as Director of the Company.

Mr. Liu Anping successively took the posts of Vice Director and Director of Energy Source Power Plant, Deputy Chief Engineer; from Dec. 2005 to Aug. 2006, he acted as Assistant to General Manager of the Company; since Aug. 2006, he has been Standing Deputy General Manager of the Company and also director since Dec. 2005.

Mr. He Xuesong successively took the posts of section monitor of the Yuansha City Pesticide Plant, Chief of financing section of Sha City Fuel-chemical Bureau, Deputy Minister and Minister of finance department in Sanonda Group Corporation as well as Deputy Chief Accountant and Chief Accountant of the Company. Since Dec. 2005, he has been acting as Director and Chief Financial Officer of Company.

Mr. Deng Guobin successively took the posts of workshop Director of the Company, Director of the Pesticide 1st Plant, and Deputy Chief of technology division of the Company. From Dec. 2005 to Sep. 2009, he concurrently acted as director and Standing Deputy General Manager of Sanonda Zhengzhou Pesticide Plant; he has been acting as Chairman of Sanonda Jingzhou Agrochemical Co., Ltd since Sep. 2009; since Dec. 1998, he has been director and Deputy General Manager of the Company. Now he acts as Director and General Manager of the Company.

Mr. Yin Hong successively took the posts of Vice Director of Fine Chemical Factory, Manager of Keyuan Company, Deputy Chief Engineer of the Company, and Minister of development department of the Company. Since Aug. 2006, he has been acting as Director of the Company.

Ms. Li Hui is the lawyer in Wuhan Branch of Beijing Deheng Law Office and arbitrator of Wuhan Arbitrating Institute. Since Jun. 2006, she has been independent director of the Company.

Mr. Ai Qiuhong has been a teacher of Xiangtan University since 2003. From Sep. 2005 to Jun. 2008, he was a doctor scholar in Xiangtan University majored in chemical engineering and received doctor degree in Jun. 2008. He was ever awarded the second-grade State Scientific and Technological Progress Prize, Hunan first-grade Province Scientific and Technological Progress Prize, first-grade Province Scientific and Technological Progress Prize of Xiangtan City, second-grade Province Scientific and Technological Progress Prize of Xiangtan City and owned two National Invention Patents, applied for two National Invention Patents. He has been acted as Independent Director of the Company since Feb. 2010.

Ms. Zhang Huide associate professor of Zhongnan University of Economics and Law, supervisor of postgraduate, a CPA, member of Accounting Society of China, committee of Accounting Computerization Commission of Department of Finance of Hubei Province, training teacher for primary and intermediate accounting computerization. She is a teacher for Auditing skill applied in accounting computerization in national tax and local tax and has been involving in accounting computerization, teaching and research of ERP accounting information system as well as its actual application for many years. From Sep. 2005 to Dec 2008, she was acted as Standing Deputy General Director of accounting experiment center of Zhongnan University of Economics and Law. And she ever acted as Manager of consultant and train department of Zhengzhong Financial Software Company, Technical Director of Wuhan Tianyi Daily Chemical Company and Hubei Sanzifeng Technology. Now she acts as Independent Director of the Company, Consultant of UFIDA, Independent Director of Wuhan Jinyun Laser Co., Ltd and Independent Director of Hubei Forbon Chemical Science and Technology Co., Ltd.

Ms. Li Dejun, he successively acted as Chief Officer, Deputy Chief, Chief of Research Institute of Wuhan Province Commission for Restructuring Economic System and Editor in Chief of Overview of Private Economy, Secretary General of Hubei Province Culture and Economy Research Society, Chief of Hubei Regional Economic Development Research Center as well as Independent Director of J.S. Machine, Wuchangyu, Angel Yeast, Xingfu Industry and so on. Now he acts as Independent Director of the Company and concurrent as Independent Director of East Lake Hi-tech and Chutian High-speed.

Mr. Yang Guang successively took the posts of Workshop Director of 2nd Pesticide Factory of the Company, Deputy Chief and Chief of the Production Scheduling Department. From Jun. 2006 to Jan. 2007, he was supervisor of the Company; he has been assistant to General Manager of the Company since Jan. 2007.

Mr. Xie Chengli successively took the posts of Vice Director, Director, Deputy Secretary and Secretary of Hubei Sanonda Co., Ltd the Pesticide 1st Plant. From Jan. 2006 to Feb. 2009, hr acted as General Manager and Chairman of the Board of Directors of Hubei Sanonda Tianmen Agrochemical Co., Ltd; since Feb. 2009, he has been working as Assistant to General Manager of the Company.

Mr. Zhang Jianguo, successively took the posts of Clerk of Organizing Cadres Section, Vice Secretary of the Party Branch of the Workshop, Deputy Director of Enterprise Management Department in the Yuansha City Pesticide Plant, as well as Deputy Director and Director of the Office, Secretary of the Board, Director, Vice Secretary of the CPC in the Company. Since Dec. 2005, he has been acting as Chairman of the Supervisory Committee, Vice Secretary of the CPC, Secretary of

Discipline Committee and Chairman of Labor Union in the Company.

Ms. Liu Jun successively took the posts of accountant of Financial Company, Chief Accountant of Sanonda Jingchun Company, Chief Accountant of Sanonda Jingzhou Agrochemical Company, and Chief of Accounting Department in Financial Company of the Company. Since Feb. 2007, he has been acting as Deputy General Manager of Financial Company and Chief of Capital Accounting Department of the Company. He also has been supervisor of the Company since Jun. 2003.

Mr. Jiang Chenggang successively took the posts of Chief of Quality Check Department, Organizing Clerk of Political Work Department, Deputy Secretary of the Party Branch, and Vice Director of Phosphate Plant, Deputy Chief and Chief of Political Work Department. Since Jun. 2006, he has been supervisor and Deputy Director of the Office of the Company.

Mr. Zhou Cheng successively took the posts of Vice Director, Director of the Pesticide 5th Plant of the Company, Director, Deputy Secretary of Branch of the Pesticide 2nd Plant of the Company. He has been acting as Employee Supervisor of the Company and Director, Secretary of Branch of Pesticide 2nd Plant of the Company since Dec. 2009.

Mr. Wuhai Rong successively took the posts of Workshop Director of sodium hudroxide workshop in Electrochemical Plant, Vice Director of Electrochemical Plant, Chairman of Labor Union of Electrochemical Plant, Director of Electrochemical Plant and Secretary of Branch of Electrochemical Plant. He has been acting as Supervisor, Director of Electrochemical Plant and Secretary of Branch of Electrochemical Plant.

Mr. Li Zhongxi successively took the posts of Office Secretary of the Company, Director of Packing Plant of the Company and Manager of Packing Company of the Company. He has been acting as Secretary of the Board and Office Director of the Company since Feb. 2000.

3. During the reporting period, there was no equities incentive entitled to the directors, supervisors and senior management staffs during the reporting period

4. Particulars about directors and supervisors holding posts in shareholding companies

Name	Name of the Shareholding Company	Post in the Shareholding Company	Office term
Li Zuorong	Sanonda Group Corporation	Chairman of the Board, Secretary of CPC	Dec. 2005 to now
Liu Xingping	Sanonda Group Corporation	Director, General Manager	Aug. 2006 to now
Liu Pingan	Sanonda Group Corporation	Director	Aug. 2006 to now
Yin Hong	Sanonda Group Corporation	Assistant to General Manager	Aug. 2006 to now

5. Changes in directors, supervisors and senior executives

On 26 Feb. 2010, the Company convened the 1st Special Session of Shareholders General Meeting, elected the 6th Supervisory Board with members of Ms. Liu Jun, Mr. Jiang Chenggang and Mr. Wu Hairong. Mr. Zhang Jianguo and Mr. Zhou Cheng were elected as Employee Supervisor of the 6th Supervisory Board of the Company on the

11th Employees' Assembly dated 3 Dec. 2009.
On 9 Jul. 2010, the Company convened the 3rd Special Session of Shareholders General Meeting, of which Mr. Li Zuorong, Mr. Liu Xingping，Mr. He Fuchun, Mr. Liu Anping, Mr. He Xuesong, Mr. Deng Guobin, Mr. Yin Hong, Ms Li Hui, Mr. Ai Qiuhong, Ms. Zhang Huide and Mr. Li Deijun were elected as Directors of the 6th Board of Directors.
On 6 Dec. 2010, Director and GM of the Company Mr. He Fuchun submitted resignation to the Board of the Company due to personal reason. According to regulations of Articles of Association of the Company, the Board of the Company accepted the resignation from Mr. He Fuchun.

6. Particulars about the annual remuneration of directors, supervisors and senior executives
Basis for the decision procedure and recognition of remuneration of directors, supervisors and senior executives: the Rules for Implementing Remuneration of Directors, Supervisors and Senior Executives drew up standing principle of the remuneration of directors, supervisors and senior executives, and decide the appraisal index of operation achievements or management duties for the Senior Executives, according to the overall development strategy and annual operating target, while at the end of the year, the Board appraised Senior Executives based on the work report and business achievement of Senior Executives.
Independent directors of the Company would not enjoy salary in the Company while the Company would drop annual allowance of RMB 48,000 to independent directors respectively. Independent directors would present relevant meetings, perform responsibilities according to Articles of Association and apply for allowance factually.
Annual remuneration for supervisors was paid according to their posts.

II. Particulars about employees

As at 31 Dec. 2010, the Company totally had 2518 employees in service. The Company executed overall labor contract system, and carried out relevant provisions stipulated by the state as well as local laws and statutes. Expenses for retirees were all paid by society.
Classification according to structures was as follows:
1. Classification based on specialty

Specialty category	Number
Production personnel	1693
Technical personnel	494
Financial personnel	47
Sales personnel	108
Administrative personnel	176

2. Classification based on education background

Education background	Number
Master	7
University diploma	221
Junior college	501
Others	1789

Section V. Corporate Governance Structure

I. Corporate governance of the Company

(I) In the reporting period, the Company continuously improved the legal person corporate governance structure and standardized the operation of the Company, stringently according to requirements of relevant laws and regulations like the Company Law, Securities Law, and Guidelines for the Corporate Governance of Listed Companies, as well as Guiding Opinions on Establishing the Independent Director System in Listed Companies. The actual situation of the legal person governance structure of the Company was basically consistent with the requirements of regulatory documents about corporate governance released by China Securities Regulatory Commission.

In the reporting period, in order to improve quality and transparency of information disclosure of annual report and in accordance with Public Notice on Do Well in Disclosure of Annual Report & Relevant Work (document No.[2009]34) from CSRC and actual conditions of preparation of annual report and disclosure work, the Company formulated Working System on Annual Report for Audit Committee of the Board, Working System on Annual Report for Independent Directors, Report System on Annual Report for the Company, Responsibility System on Serious Errors in Disclosure Annual Report, Administrative System on Report and Submitting Information to Other Units and so on. In this way, the Company intensified factuality, accuracy, completeness and promptness of annual report of the Company and modified inside information of the Company and behavior of insider on buying or selling shares. Meanwhile, the Company implemented Administrative System on Significant Capital Flow so as to improve operation and management level and risk prevention ability.

1. About shareholders and shareholders' general meeting: The Company earnestly executed relevant laws and statutes as well as Articles of Association and Rules for Procedure of the Shareholders' General Meeting, and procedure for convening, holding and voting of shareholders' general meeting was legitimate and valid; the Company full took over shareholders' interest and ensure that all shareholders, especially minority, enjoyed equal position and exercised shareholders' rights.

2. About directors and the Board of Directors: the Company earnestly executed relevant laws and statutes as well as Rules for Procedure of the Board of Directors, procedure for convening, holding and voting the Board Meeting were all strictly in accordance with the above rules; directors of the Company are honest, credit and diligent. With attitude of earnest and responsibility, they attended the Board Meeting and Shareholders' General Meeting, reviewed and examined relevant resolutions, and accepted inquiries from shareholders.

3. About supervisors and the Supervisory Committee: the Company earnestly executed relevant laws and statutes as well as Rules for Procedure of the Supervisory Committee, procedure for convening, holding and voting the Board Meeting were all strictly in accordance with the above rules; all the supervisors of the Company earnestly performed their duties, supervised on operating management, decision-making procedure and financial status as well as diligence and duty performance of directors and senior executives with attitude of being responsible to shareholders, and protected interest of the Company and shareholders.

4. About relationship between the Company and controlling shareholder: controlling shareholder of the Company standardized action, and never directly or indirectly intervened in decision-making and operation of the Company over shareholders' general meeting; the Company strictly separated in personnel, assets, finance,

organization and business from the controlling shareholder, and the Board of Directors, the Supervisory Committee and operating management organization operated and ran independently.
5. About related transactions and guarantees: during the reporting period, the Company strictly executed regulations on related transactions and guarantees stipulated in Articles of Association, related transactions were fair and reasonable, decision-making procedure was legitimate and trading price was fair and reasonable. During the reporting period, the Company neither guaranteed for other units except for controlling subsidiaries, nor guaranteed violating regulations of Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Related Parties and Listed Companies' Provision of Guaranty to Other Parties with document No. ZJFZ [2003] 56, or any action of cash flow with related parties violated regulations.
6. About information disclosure: The Board of Directors and managements paid more attention to information disclosure. The Company strictly in line with relevant laws and statutes as well as regulations stipulated in Rules for Listing Shares in Shenzhen Stock Exchange, Articles of Association and Administrative System on Information Disclosure, strengthened management on information disclosure affairs, performed obligation of information disclosure, authentically, correctly, completely, fairly and timely disclosed relevant information, and ensured that all shareholders gained information equally.

II. Particulars about duty performance of independent directors

1. In the reporting period, all independent directors of the Company faithfully performed their duties with diligence according to Articles of Association and Work System of Independent Director, actively attended the Board meeting of the Company, carefully examined all meeting materials as well as made objective and fair judgment on them. Moreover, they issued independent opinions on relevant issues, as well as professional opinions on significant decision-making of the Company, making full use of their professional advantages, and as a result, they protected the interests of the Company and the small and medium shareholders.

2. In the reporting period, the Company totally held 8 Board meetings, one Annual Shareholders' General Meeting and one provisional shareholders' general meeting. Three Independent Directors did not raise any objection or disagreement on proposals of the meetings. Brief to their attendance at the meetings is as follow:

Independent directors	Meetings should be attended	Times of personal attendance	Times of entrusting attendance
Li Hui	13	13	0
Ai QiuHong	11	11	0
Zhang Huide	3	3	0
Li Dejun	3	3	0

III. Separation between the Company and the controlling shareholder in business, personnel, assets, organization and finance

The Company and controlling shareholders of Sanonda Group strictly in line with regulations of Corporate Governance Principle for Listed Companies that the Company was strictly separated in personnel, assets, finance, organization and business from the controlling shareholder, and the Board of Directors, the Supervisory Committee and operating management organization operated and ran independently.
1. Independence of the Company's business: The Company possesses independent

purchasing and sales system and operated independently. The affiliated transactions between them are legal, transparent and fair, and the transaction price was reasonable.
2. Independence of the Company's personnel: The Company has established independent systems of labor, personnel and wage. The procedure that Senior Executives of the controlling shareholder concurrently act as Directors of the Company is legal. General Managers and other senior executives drew salary from the Company, and they didn't hold any post of administrative management in controlling shareholder.
3. Independence of the Company's assets: The Company possesses independent production system, auxiliary production system and supporting facilities. Industrial property, trademark as well as non-patent technology related with the operation all belongs to the Company. The assets of the Company and controlling shareholders are definite, and there was no free occupy or use.
4. Independence of the Company's organization: The Company has independent site for production and operations as well as independent offices.
5. Independence of the Company's finance: The Company has established independent financial and accounting department, normative and independent accounting system and financial management system, and it possesses independent bank account and pays tax independently. Accountant doesn't have con-current jobs in controlling shareholders' companies.

IV. Establishment and Improvement of Internal Control System of the Company
1. Report on Self-Appraisal of Internal Control System
The 5th Session of the 6th Board of Directors reviewed and approved Report on Self-Appraisal of Internal Control System of the Company 2010. Report on Self-Appraisal of Internal Control System of the Company was published in detail on http://www.cninfo.com.cn/ at the same day.

2. Opinions on the Self-Appraisal
(1) Opinion of the Supervisory Committee Concerning Self-Appraisal of Internal Control
In accordance with relevant provisions stipulated by China Securities Regulatory Commission and Shenzhen Stock Exchange and based on the actuality, the Company followed the basic principles of internal control, established and improved the internal control system covering all sections of the Company, guaranteed normal production and operation of the Company and protected security and integrity of the Company's assets; the Company set up internal audit department and ensured effective implement of internal control activity. During the reporting period, there was no breach of relevant statutes concerning internal control or internal control system of the Company.
The Supervisory Committee believed that Self-Appraisal Report on Internal Control for 2010 authentically, factually and objectively reflected actuality of internal control of the Company.

(2) Opinion of the Independent Directors Concerning Self-Appraisal of Internal Control
The independent directors of the Company believed that preparation format and content of Self-Appraisal Report on Internal Control for 2010 are in line with requirements of documents and authentically and accurately reflected actuality of internal control of the Company. Internal control system, which has been set up by the

Company, was generally in line with relevant laws and statutes of the state as well as requirements from supervisory ministry, neither there were serious defaults in internal control system, nor no serious warp in actual progress of implement, and was able to fit for demand of operation and management as well development of the Company; the key control activities of the Company were launched stringently according to rules of various internal control systems of the Company. The internal control over shareholding subsidiaries, affiliated transactions, external guarantee, and use of raised proceeds, significant investments and information disclosure was strict, sufficient and effective, which assured normal running of operation and management of the Company. Independent directors of the Company hoped that the Company would gradually improve internal control, put forward the development of all work of internal control of the Company and continuously promote management of the Company.

3. Establishment and implementation of internal control system on financial report of the Company

In accordance with laws, administrative rules and regulations of Ministry of Finance of the State Council of PRC established defined work for accounting post which was separated and counter-control and counter-supervise and Post Responsibility System was conducted in the Company. Financial system clearly defined person on drafting financial report acted as GL accountant, audit accountant perform responsibility of review and supervision for accounting information and materials of accounting document, accounting book and so on. Once the accounting policies and accounting estimates were approved by the Company, it shall not be alter at discretion. Financial accounting adopted UFIDA software reviewed and approved by Ministry of Finance that is strict in accounting process, accurate in articulation and scientific and completed on the procedure of financial report. With the help of UFIDA software, the Company implemented target control, efficient collection, analysis and handling of data that achieve a favorable operation for successively over 10 years. Moreover, on the aspect of internal audit system of the Company, the Company established internal audit department to conduct internal audit supervision for financial incomings and outgoings of the Company. There was neither significant omission in the financial report 2009, no significant faults in financial report 2010. In the reporting period, all members of Audit Committee accomplished their responsibilities and submitted relevant explanation in writing; independent directors earnestly performed duties of diligence and faithfulness, cared for production and operation conditions of the Company, communicated with administration authorities, carried out field work, intently paid attention to information confidentiality in preparation of annual report, prevent reveal of inside information, behavior of insider trading and other laws-breaking and laws-forbidden actions from happening. Independent opinions were distributed for guaranteed particulars, related transactions and significant events.

At present, internal control system of annul financial report of the Company operates well. In the reporting period, there’s no significant defect in financial report in respect of internal control.

V. Special campaigns for corporate governance improvement

The Company has seriously carried out the spirit of CSRC for special campaigns for corporate governance improvement, further strengthened the sense of standardized operation, brought Board of Directors, Supervisory Committee and Shareholder’s

General Meeting into full play in governance systems, smoothly completed self-inspection of special campaigns for corporate governance improvement and rectification work of the Company. There's no governance problem unsolved of the Company at present.

VI. Horizontal competition and related transactions

In the reporting period, the Company, in accordance with requirements of document of Notice on Conducting Special Activities of Solving Horizontal Competition and Reducing Related Transactions (E-Zheng-Jian-Ju-Zi [2010] No.24), seriously inspected related cases such as related transactions and horizontal competition, which are as followings:

1. Explanation on related transactions and horizontal competition

In Apr. 2005, China National Agrochemical Corporation signed Agreement on Equity Transfer with Jingzhou State-owned Assets Administration Bureau (the original controller of the Company), received 100% equity of Sanonda Group Co., Ltd. that had been held by the Bureau, and became the actual controller of the Company. In line with characteristics of pesticide and chemical industry, China National Agrochemical Corporation strengthened its group-purchasing advantage for chemical raw materials and formed local monopolized control over partial chemical raw materials, which formulated daily related transaction events such as purchase of raw materials to Sanonda Group Co., Ltd. and its actual controller by the Company.

At the same time, China National Agrochemical Corporation, the Company's actual controller, soon purchased Shandong Dacheng Pesticide Co., Ltd., of which products such as DDVP and paraquat constructed horizontal competition against correspondent products of the Company.

2. Influence of related transactions and horizontal competition on corporate operation

Most related transactions between Sanonda Group Co., Ltd. and the Company were fair and lawful transactions normally occurred in routine production of the Company with market-based purchase prices and no harm to equity of Hubei Sanonda Co., Ltd. and shareholders. Besides, guarantee costs provided for Sanonda Group Co., Ltd. and its actual controller in the purpose of ensuring financing funds for the Company needed joint liability guarantees offered by Sanonda Group Co., Ltd., China National Agrochemical Corporation and China National Chemical Corporation. It was executed in light of Management Method for Financing Guarantees in China National Chemical Corporation and charging standard of credit-guarantee limited companies. It was rational to pay guarantee costs, of which the pricing is fair, with no harm to equity of the Company and all shareholders, especially minority shareholders.

The amount concerning horizontal competition against Shandong Dacheng Pesticide Co., Ltd., the affiliated party controlled by the same controller of the Company, accounted for low proportion to operating revenue of the Company. Meanwhile, key sales regions of the Company differed from Shandong Dacheng, as a result, there's no significant influence on the Company caused by evident competition.

3. Relevant measures to solve horizontal competition and reduce related transactions

In respect of existence of horizontal competition, the Company has events relating to horizontal competition and relevant requirements of regulators to China National Agrochemical Corporation, the actual controller of the Company, and cooperated with the actual controller to do well to solve such problems.

In respect of existence of related transactions, the Company will, in compliance with relevant rules in laws and regulations such as Company Law, Listing Rules of Stocks of Shenzhen Stock Exchange and Articles of Association, strictly execute decision procedures, timely fulfill the obligation of information disclosure, continually standardize related transactions, so as to ensure rational, fair and lawful transaction prices, and earnestly protect equity of the Company and all shareholders, especially minority shareholders.

VII. Establishment and implementation of appraisal mechanism, incentive mechanism and related reward systems for senior executives of the Company

In respect of incentive and restraint mechanism, the Company conducts appraisal on annual business performance and performance of personal duties to realize annual remuneration to senior executives. The Company shall, in line with market-oriented principles, constantly perfect appraisal and incentive mechanism, closely link remuneration of senior executives with administration level and business performance, fully arouse and motivate enthusiasm and creativity of senior executives, and maximize shareholder’s value as a result.

Section VI. Brief Introduction to the Shareholders' General Meeting

The Company held the 1st Special shareholders' General Meeting 2010 on 26 Feb. 2010, and public notice on resolution of the meeting was published on China Securities Journal, Securities Times and Ta Kung Pao, as well as http://www.cninfo.com.cn on 27 Feb. 2010..

The Company held the Annual shareholders' General Meeting 2009 on 28 May 2010, and public notice on resolution of the meeting was published on China Securities Journal, Securities Times and Ta Kung Pao, as well as http://www.cninfo.com.cn on 29 May 2010.

The Company held the 2nd Special shareholders' General Meeting 2010 on 25 Jun. 2010, and public notice on resolution of the meeting was published on China Securities Journal, Securities Times and Ta Kung Pao, as well as http://www.cninfo.com.cn on 26 Jun. 2010.

The Company held the 3rd Special shareholders' General Meeting 2010 on 9 Jul. 2010, and public notice on resolution of the meeting was published on China Securities Journal, Securities Times and Ta Kung Pao, as well as http://www.cninfo.com.cn on 10 Jul. 2010

Section VII. Report of Board of Directors

Ⅰ. Discussion and analysis by the management

(Ⅰ) Operation overview

Main business of the Company can be divided into production and sales of pesticide and chemical products.

In 2010, the economic situation was complex and changeable both at home and abroad. Due to awful meteorological disasters, demand for pesticides saw a sharp drop and there was still overcapacity in the pesticide industry. The trend of capacity reduction in the sector continued, which caused weak demand in the pesticide market as a whole and that pesticide prices were stuck at low levels. Meanwhile, prices for water, electricity and gas were on the up. In such unfavorable circumstances, the Company's operation team, guided by wise decisions made by the Board of Directors, enhanced its production and operation analysis and organized production activities in a scientific and rational manner, so as to fully ensure the balanced and safety operation of its production equipments. At the same time, it also tried to expand sales by strengthening market researches and analysis, promoting marketing innovations for international markets and grabbing opportunities from market recovery in the fourth quarter of the year. By proactively promoting intensive production and continuously improving work, the Company continued to improve its management. In addition, it also took measures to reinforce analysis to raw material markets for chemicals and improved its purchase and logistics management. As such, despite the fact that the overall increase of raw materials for chemicals exceeded 50% in 2010, the Company still managed to effectively control its purchase cost. At the same time, the Company carried on with its projects step by step and put more effort in tackling scientific and technological tasks as a way to continue to increase its overall competitiveness.

For 2010, the Company achieved revenue of RMB 1.57 billion, a slight decrease of 4.87% as compared to 2009; a total profit reaching RMB 31.88 million, up 3.5% over 2009; a net profit attributable to the Company's shareholders reaching RMB 23.81 million, representing a significant year-on-year growth of 23.30%; and an export income of USD 110 million, up 7.84% year on year.

(Ⅱ) Operation status of main businesses

1. Main businesses classified according to industries and products:

Unit: (RMB) Ten thousand

Main businesses classified according to industries						
Industries or products	Revenue	Operating cost	Gross profit ratio (%)	Increase/decrease of revenue compared with last year (%)	Increase/decrease of operating income compared with last year (%)	Increase/decrease of gross profit ratio compared with last year (%)
Chemical raw materials and chemical products manufacturing	148,383.60	125,514.65	15.41%	-6.80%	-7.72%	0.83%
Main businesses classified according to products						
New chemical materials and special chemical products	1,579.76	886.07	43.91%	51.28%	24.46%	12.09%
Petro-chemicals and refined chemical	6,900.29	5,295.41	23.26%	17.82%	18.93%	-0.71%

products						
Basic (chlorine alkali) chemical products	1,451.87	1,633.18	-12.49%	268.86%	291.50%	-6.51%
Agrochemicals such as fertilizers and pesticides	138,451.69	117,699.98	14.99%	-8.87%	-9.76%	0.84%
Total	148,383.60	125,514.65	15.41%	-6.80%	-7.72%	0.83%

2. Main businesses classified according to regions

Unit: (RMB) Ten thousand

Region	Revenue	Increase/decrease over last year (%)
Domestic	77,190.44	-13.48%
Overseas	71,193.16	1.71%
Total	148,383.60	-6.80%

. 3. Top five suppliers and customers:

Unit: (RMB) Ten thousand

Combined purchase amount from top five suppliers	46,535	Proportion in total purchase amount	35.15%
Combined sales amount to top five clients	122,68	Proportion in total sales amount	7.81%

4. Explanation on significant year-on-year changes in composition of assets and liabilities:

Unit: (RMB) Ten thousand

Item	31 Dec. 2010		31 Dec. 2009		Increase/decrease (%)
	Amount	Proportion in total assets (%)	Amount	Proportion in total assets (%)	
Monetary funds	20,375	10.11%	47,446	23.27%	-57.06%
Notes receivable	3,359	1.67%	1,075	0.53%	212.58%
Other receivables	3,475	1.72%	1,922	0.94%	80.78%
Inventory	27,595	13.70%	19,876	9.75%	38.83%
Construction in progress	48,010	23.83%	28,786	14.12%	66.78%
Accounts received in advance	6,326	3.14%	3,073	1.51%	105.86%
Taxes payable	-1,962	-0.97%	-446	-0.22%	-339.98%
Non-current liabilities due within 1 year	20,000	9.93%	9,500	4.66%	110.53%

Explanation:

① Monetary funds decreased by 57.06% as compared with last year mainly because: Firstly, a large sum was input for the thermal electricity co-generation project and the production line rebuilding and expansion. Secondly, increase of cash for paying off debts led to a decrease of monetary funds;

② Notes receivable increased by 212.58% as compared with last year, mainly because there were more settlements with notes by clients in the reporting period.
③ Other receivables increased by 80.78% as compared with last year, mainly because transaction deposit for property right of RMB 11,150,000 was paid at the period-end.
④ Inventory increased by 38.83% as compared with last year, mainly because product series of glyphosate did not sell well in the market, which resulted in overstocked products.
⑤ Construction in progress registered a year-on-year growth of 66.78%, mainly due to the increase of investments on thermal electricity co-generation project, acetaldehyde project, and relocation project of the new plant in the reporting period.
⑥ Amounts received in advance registered a year-on-year growth of 105.86%, mainly because market of pesticide recovered in the 4th quarter of the reporting period, and clients paid more accounts in advance.
⑦ Taxes payable decreased by 339.98% as compared with last year, mainly due to the increase of incoming value added taxed that were to be deducted.
⑧ Non-current liabilities due within 1 year increased by 110.53%, mainly due to the increase of long-term borrowings of installments.

5. Analysis on year-on-year changes in selling expenses, administrative expenses, financial expenses, etc.:

Unit: (RMB) Ten thousand

Items	2010	2009	Year-on-year changes (%)
Selling expenses	5,852	5,985	-2.23%
Administrative expenses	8,366	9,937	-15.81%
Financial expenses	4,265	4,140	3.02%
Asset impairment loss	3,002	2,823	6.35%
Investment income	22	2,096	-98.95%
Non-operating income	573	603	-4.99%
Non-operating expenses	361	543	-33.46%
Income tax expenses	831	1,160	-28.34%

Explanation:
① In the reporting period, selling expenses registered a year-on-year decrease of 2.23%, mainly because equities of the subsidiary Sanonda Zhengzhou Pesticide Co., Ltd. was transferred in last year. The company wasn't included into consolidation in this year, but export expenses of products increased.
② In the reporting period, administrative expenses decreased by 15.81% as compared with last year, mainly because equities of the subsidiary Sanonda Zhengzhou Pesticide Co., Ltd. was transferred in last year. The company wasn't included into consolidation this year.
③ In the reporting period, financial expenses were down by 3.02% as compared with last year, mainly due to the increase of interests resulted from changes on interest rate.
④ In the reporting period, asset impairment loss increased by 6.35% as compared with last year, mainly due to withdrawal of impairment provision for Yuedi Steam Special Line in the current period.
⑤ In the reporting period, investment incomes registered a year-on-year decrease of

98.95%, mainly because investment income of RMB 16,850,000 generated from equity disposal of Zhengzhou Pesticide Co., Ltd. in last period was large.
⑥ In the reporting period, non-operating incomes decreased by 4.99% as compared with last year, mainly because gains from disposal of fixed assets in last period was larger as compared with the current period.
⑦ In the reporting period, non-operating expenses decreased by 33.46%, mainly because losses from disposal of fixed assets was larger as compared with last year.
⑧ In the reporting period, income tax expenses decreased by 28.34%, mainly due to adjustment of deferred income tax.

6. Breakdown of cash flows in report period:

Unit: (RMB) Ten thousand

Items	2010	2009	Amount of increase/decrease	Ratio of increase/decrease
Net cash flows from operating activities	7,022	18,826	-11,804	-62.70%
Net cash flows from investing activities	-25,501	-36,456	10,955	
Net cash flows from financing activities	-8,366	8,797	-17,163	
Net increase in cash and cash equivalents	-27,071	-8,837	-18,234	

Explanation:
① In the reporting period, net cash flows from operating activities registered a year-on-year decrease of RMB 118,040,000, mainly because more cash were paid for purchasing goods in the reporting period as compared with last period.
② In the reporting period, net cash flows from investing activities registered a year-on-year increase of RMB 109,550,000, mainly because project investments decreased as compared with last period.
③ In the reporting period, net cash flows from financing activities registered a year-on-year decrease of 171,630,000, mainly due to increase of payments for debts in the current period.

7. Analysis on operation status and business performance of main controlled companies

Unit: (RMB) Ten thousand

Name of subsidiary	Business nature	Registered capital	Shareholding proportion	Total assets	Net assets	Operating revenue	Net profit
Sanonda (Jingzhou) Pesticides and Chemicals Co., Ltd.	Production of pesticides and intermediates	3000	88.33%	7,365	337	10,782	121
Hubei Sanonda Foreign Trading Co., Ltd.	Import & Export of pesticides and intermediates	1000	90.00%	12,275	2,072	25,497	327
Hubei Sanonda Tianmen Agrochemical Co., Ltd.	Production and sales of pesticides	3000	98.50%	4,213	3,547	7,544	157
Jingzhou Longhua Petrochemical Co., Ltd.	Production and sales of chemical products	500	65.00%	2,900	1507	9,902	272
Jingzhou Sanonda Aifusi Chemical	Research, development,	600	95.10%	1,130	993	1,582	243

Industry Co., Ltd.	production and sales of fine chemical products						
Jingzhou Lingxiang Chemical Co., Ltd.	Research, development, production and sale of chemicals	1000	51.00%	4062	595	1882	-368

8. About measurement of fair value

Compared with last year, there occurred no changes in main asset measurement attributes of the Company in the report period. Available-for-sale and transactional financial assets are measured at their fair value, and those available-for-sale and transactional financial assets measured at their fair value refer to shares of the listed Company. And fair value is determined based on the closing price in the securities trading organization on the balance sheet date.

Internal control rules concerning fair value measurement have been basically formulated by the Company, stipulating the scope, measurement, recognition procedures, etc. of assets measured at fair value. Meanwhile, specialized posts are created to take charge of measuring assets at fair value, and relevant personnel are appointed to recheck measurement of assets at fair value and to analyze influence of fair value changes in relevant assets on the financial situation of the Company on a regular basis.

(1) In the reporting period, there's no item related to fair value measurement.

(2) Up until the end of the report period, the Company had had no foreign-currency financial assets.

II. Outlook of future development of the Company

(I) Development trends in the industry

Although the market of pesticide and chemical has recovered since the 4th quarter of 2010, there're still problem concerning overcapacity in the whole industry. Meanwhile, constant rise in prices of resources, such as petroleum and coal, will result in higher prices of chemical raw materials, appreciation of RMB, as well as fiercer competitions. It is estimated that prices of main pesticide products won't register significant increase in 2011, however, with constant promotion of state policies to strengthen agriculture and benefit farmers, along with more input in "three rural issues" (agriculture, countryside, and farmer) by the state, domestic market demand for pesticide shall keep sustainable growth.

In Aug. 2010, four ministries, including Ministry of Industry and Information Technology, jointly printed and distributed Policies in Pesticide Industry, requiring vigorous promotion of enterprise merger and restructuring, improvement of industrial concentration, optimization of industrial division and cooperation, as well as establishment of perfect cooperation in industrial chain with the guidance of technical material enterprises. By 2015, the number of pesticide enterprises will decrease by 30%; the sales volume of top 20 domestic pesticide enterprise groups will account for over 50% of the total sales volume in the country, and the ratio will reach 70% by 2020. In early 2011, China Crop Protection Industry Association drafted and completed the Twelfth Five-year Plan in Pesticide Industry, proposing that there should be establishment of large pesticide enterprise groups by merger and restructuring, and development of enterprises of international competitiveness. Besides, the state will constantly strengthen the force of energy conservation and emission reduction, and enhance environmental protection requirements, which will accelerate the integration of pesticide industry. Under such circumstance, there will be a new round of policy-based shuffle in pesticide industry.

(II) Production and operation target for 2011
The Company's production and operation target for 2011: operating income at RMB 2 billion and foreign exchange income through export at USD 125 million.

(III) Capital need, usage plan and capital sources in order to realize the Company's future development strategies
In 2011, the Company intends to input a total about RMB 500 million for new construction and construction expansion projects. The said funds will come from bank loans directly and self-owned capital of the Company.

(Ⅳ) The Company has not made any prediction of its profit in 2011.

(V) Risk factors that may influence future development strategy and operating target of the Company and countermeasures thereof
Risks and adopted countermeasures: Firstly, strong expected rise in prices of sources and resources will bring about fast rise in prices of raw materials, which will put more cost pressure on the Company; secondly, production and sales of the whole pesticide industry will be greatly affected by extreme climates such as drought; thirdly, there's still overall pesticide overcapacity, resulting in fiercer market competitions; fourthly, the expected appreciation of RMB will have an impact on export business of the Company; fifthly, there'll still be large pressure for the Company on security and environmental protection work, of which requirements set by the state are higher and higher.
Intended countermeasures adopted by the Company to deal with the aforesaid risks are as followings:
Firstly, to deepen sustainable improvement work and enhance administration level of the Company; secondly, to deepen establishment of marketing channels and improve operation quality; thirdly, to accelerate project construction and technology innovation, further optimize processing, control consumption of raw materials and energy, save cost, and improve efficiency; fourthly, to further strengthen purchase management and control purchase cost; fifthly, to continually perfect establishment of internal control system, avoid operating risks, and ensure healthy development of the Company.

III. Investments of the Company in report period

(I) Use of raised funds

In the report period, the Company did not raise any funds. Nor any application of funds raised in previous periods was carried down into the report period.

(II) Projects with non-raised funds

Unit: (RMB) Ten thousand

Name of project	Investment amount	Project progress	Project income
Thermal electricity co-generation	36,557.00	98.33%	Unfinished
2nd phase of PMIDA	6,999.00	90.31%	Unfinished

Relocation project of Jingzhou Agrochemical Plant	1,795.00	31.88%	Unfinished
Acetaldehyde project	1,144.00	34.99%	Unfinished
Total	46,495.00	-	-

IV. In the reporting period, there's neither change in the Company's accounting policy, accounting estimates, nor reason for and influence of correction for significant accounting errors

V. Daily work of Board of Directors during report period

(I) Board sessions and resolutions made

1. The 23rd Session of the 5th Board of Directors was convened on 3 Feb. 2010 and resolutions made at the session were disclosed on China Securities Journal, Securities Times, Ta Kung Pao and http://www.cninfo.com.cn dated 4 Feb. 2010.
2. The 24th Session of the 5th Board of Directors was convened on 13 Apr. 2010, and resolutions made at the session were disclosed on China Securities Journal, Securities Times, Ta Kung Pao and http://www.cninfo.com.cn dated 17 Apr. 2010.
3. The 25th Session of the 5th Board of Directors was convened on 23 Apr. 2010, and resolutions made at the session were disclosed on China Securities Journal, Securities Times, Ta Kung Pao and http://www.cninfo.com.cn dated 24 Apr. 2010.
4. The 26th Session of the 5th Board of Directors was convened on 9 Jun. 2010, and resolutions made at the session were disclosed on China Securities Journal, Securities Times, Ta Kung Pao and http://www.cninfo.com.cn dated 10 Jun. 2010.
5. The 27th Session of the 5th Board of Directors was convened on 22 Jun. 2010, and resolutions made at the session were disclosed on China Securities Journal, Securities Times, Ta Kung Pao and http://www.cninfo.com.cn dated 23 Jun. 2010.
6. The Special Session of the 5th Board of Directors was convened on 23 Jun. 2010, and resolutions made at the session were disclosed on China Securities Journal, Securities Times, Ta Kung Pao and http://www.cninfo.com.cn dated 24 Jun. 2010.
7. The 1st Session of the 6th Board of Directors was convened on 19 Jul. 2010, and resolutions made at the session were disclosed on China Securities Journal, Securities Times, Ta Kung Pao and http://www.cninfo.com.cn dated 20 Jul. 2010.
8. The 2nd Session of the 6th Board of Directors was convened on 18 Aug. 2010, and resolutions made at the session were disclosed on China Securities Journal, Securities Times, Ta Kung Pao and http://www.cninfo.com.cn dated 20 Aug. 2010.
9. The 3rd Session of the 6th Board of Directors was convened on 21 Oct. 2010, and resolutions made at the session were disclosed on China Securities Journal, Securities Times, Ta Kung Pao and http://www.cninfo.com.cn dated 23 Oct. 2010.

(II) Execution by Board of Directors on resolutions made by Shareholders' General Meeting

During the report period, the Board of Directors faithfully executed all resolutions made by the Shareholders' General Meeting in compliance with the Company Law and the Company's Articles of Association.

VI. Preplan for profit distribution and turning capital reserve into share capital

As audited by RSM China Certified Public Accounts Co., Ltd., the parent company achieved in 2010 a net profit of RMB 20,507,684.95. After 10% of the net profit, namely RMB 2,050,768.50, had been withdrawn as statutory surplus reserve, profit available for distribution for the year 2010 stood at RMB 18,456,916.45. After adding retained profit of RMB 109,259,805.96 at the year-begin, actual accumulative profit distributable to shareholders stood at RMB 127,716,722.41. Considering the high capital demand for the Company's construction in progress, the Company formulated the preplan for profit distribution and turning capital reserve into share capital for the year 2010, i.e. not to conduct profit distribution or turn capital reserve into share capital. The said preplan shall be submitted to and approved by the 2010 Annual Shareholders' General Meeting.

VII. Distribution of cash dividends in previous three years

Unit: (RMB) Yuan

Year	Amount of cash dividends (tax included)	Net profit attributable to shareholders of listed Company in consolidated statements for the year	Proportion in net profit attributable to shareholders of listed Company in consolidated statements for the year	Annual distributable profit
2009	0.00	19,310,850.13	0.00%	109,259,805.96
2008	29,799,572.97	159,892,332.65	18.64%	137,432,584.20
2007	0.00	40,360,723.94	0.00%	0.00
Proportion of accumulative cash dividends in recent three years in the latest average annual net profit (%)			40.72%	

VIII. Duty performance of specialized committees under Board of Directors

(I) Duty performance of Audit Committee

The Audit Committee under the Board of Directors comprises 3 directors, of which 2 directors are independent directors. It is chaired by independent director Ms. Zhang Huide with a professional accounting background. In the reporting period, according to requirements of Criterion No.2 for Content and Form of Information Disclosure of Companies Publicly Issuing Securities <Content and From of Annual Reports> and Circular of 2010 Annual Report of Listed Companies ([2010] No. 37) issued by CSRC, as well as requirements of relevant documents of Shenzhen Stock Exchange and Rules of Procedure for Audit Committee Concerning Annual Reports, the Audit Committee under the Board fully played its role in supervising, preserved the independence of Audit, and earnestly performed its duties as follows:

1. On 21 Dec. 2010, financial department of the Company and RSM China Certified Public Accounts Co., Ltd., which was responsible for annul audit of the Company, negotiated about events such as work plan of annual report by e-mail and telephone communication. After achieving consensus, the work plan of annual report, as well as other communicated events, was submitted to the Audit Committee for review, and the schedule of audit work for financial report 2010 of the Company was confirmed.

2. From 15 Feb. 2011 to 15 Mar. 2010, according to relevant rules and requirements, before CPAs for annual audit entered the site and after they issued initial audit opinion, the Audit Committee twice reviewed financial statements of the Company and issued audit opinion, stating that financial reports of the Company were authentic, accurate and integrated with no false record, misleading statement or false omission.

3. On 15 Feb. 2011, the Audit Committee urged the CPAs firm to strictly complete the audit report in light of determined audit schedule with written notification. The formal audit report should be submitted by 15 Mar. 2011.

4. On 15 Mar. 2011, the Audit Committee submitted summary report about the work done by RSM China Certified Public Accounts Co., Ltd in annul audit 2010 of the Company, considered the audit thereof for financial condition and operating results of the Company as reasonable and fair, and regarded the issued report as objective and authentic.

5. On 15 Mar. 2011, after RSM China Certified Public Accounts Co., Ltd. issued the Audit Report 2010. The Audit Committee convened a session to vote for such report and formed agreement on resolution to be submitted to the Board for verification.

(II) Summary report on duty performance of Remuneration Committee under Board of Directors

In the report period, the Remuneration Committee offered professional opinions and advices in regard to the Company's performance appraisal mechanism and incentive mechanism. It also conducted checks on the Company's performance assessment, the payment of wages and bonus, etc.. And the Committee held the opinion that the Company's existing remuneration system was established according to the stipulated decision-making procedure, and that the distribution standard of remuneration to the Company's directors, supervisors and other senior management personnel was in line with relevant regulations.

The Company has not established any stock incentive mechanism.

IX. Other matters

1. The 24th Session of the 5th Board of Directors was convened on 13 Apr. 2010, which reviewed and approved the Proposal on the Registration System of Inside Information. During the reporting period, under the self-inspection, before the disclosure of material and sensitive information with significant influence on the price of the Company's shares, there was no insiders using the inside information to sell or buy the shares of the Company.

2. In the reporting period, China Securities Journal, Securities Times and Ta Kung Pao were designated as the newspapers for the Company's information disclosure, and http://www.cninfo.com.cn as the website for its information disclosure.

3. Special statement issued by RSM China Certified Public Accountants Co., Ltd. regarding capital occupation by the Company's controlling shareholder and other related parties

Special Statement on Capital Occupation by Controlling Shareholder and Other Related Parties of Hubei Sanonda Co., Ltd. in 2010

ZRYHZS Zi No.【2011】0449

All shareholders of Hubei Sanonda Co., Ltd.,

As entrusted, we have audited the balance sheet and consolidated balance sheet as at 31 Dec. 2010, the income statement and consolidated income statement, the cash flow statement and consolidated cash flow statement, and the statement of change in shareholders' equity and the consolidated statement of change in shareholders' equity and the notes to financial statements as of the year 2010 (collectively referred to as "the Financial Statement") of Hubei Sanonda Co., Ltd. (hereinafter referred to as "the Company") and its subsidiary (hereinafter referred as "the Group"), and after which, we specially audited the attached Summary Statement of capital occupation by controlling shareholder and other related parties of the Company in 2010 (hereinafter referred as "the Summary Statements"). According to the Circular on Relevant Issues Concerning Standardization of Fund Transfer between Listed Companies and Associated Parties and Provision of External Guaranty issued by the CSRC and the State-owned Assets Supervision and Administration Commission of the State Council (ZJF [2003] No. 56), the Company's management level's responsibility is to prepare and disclose the summary statement on the capital occupation by the controlling shareholder and other related parties in 2010, and provide authentic, legal and complete audit evidences, while our responsibility is to give the specified audit opinions on the Summary Statement basing on the implementation of audit.

We carried out the auditing works in accordance with Audit Standards for China Certified Public Accountants, which requires us to follow the Code of Ethics, plan and implement the relevant auditing works so as to reasonably ensure whether there be any material errors in the Summary Statement or not. During the process of auditing, we implemented the necessary processes such as auditing the accounting records and calculating the relevant items and etc. We believe that our auditing works have provided reasonable base for issuing the auditing opinions.

We believe that there was no significant inconformity between the data in the attached Summary Statement and the checked accounting data & the audited financial statement data during our audit on the financial statement of the Group for Y2010.

In order for a better understanding of capital occupation by other related parties of the Company for Y2010, the Summary Statement should be read together with the audited financial statements.

The auditing report is only used for the information disclosure of annual report for Y2010, but not for other purpose.

(1)Summary statement of capital occupation by controlling shareholder and other related parties of the Company in 2010 (Unit: RMB)

Summary statement of capital occupation by controlling shareholder and other related parties of the Company in 2010

Prepared by Hubei Sanonda Co., Ltd. Unit: RMB Yuan

Type of capital occupies	Name of capital occupier	Related-party relation between occupier and the Company	Accounting item of listed company	Balance of occupied capital at period-begin of 2010	Accumulated amount of occupied capital in 2010	Reimbursement amount of occupied capital in 2010	Balance of occupied capital at period-end of 2010	Reason for occupation	Nature of occupation
Controlling shareholder, actual controller and their related parties	Jingzhou Hengxiang Material Trade Co., Ltd.	Under the same parent company	Account receivables		2,470,959.00	2,470,959.00		Credit	Occupation for operating purposes
	Jingzhou Hongxiang Material Trade Co., Ltd.	Under the same parent company	Account receivables		4,304,360.25	4,304,360.25		Credit	Occupation for operating purposes
	Jingzhou Fude Foods General Factory	Under the same parent company	Account receivables		159,927.55		159,927.55	Payment for labors	Occupation for operating purposes
	Sanonda Group Corporation	Parent company	Account receivables		2,703,312.00	2,703,312.00		Credit	Occupation for operating purposes
Subtotal	——	——	——		**9,638,558.80**	**9,478,631.25**	**159,927.55**	——	——

Other related parties and their affiliated enterprises	Hubei Jingzhou Huaxiang Chemical Co., Ltd.	Jointly-run enterprise of parent company	Account receivables		32,348,610.87	32,348,610.87		Credit	Occupation for operating purposes
	Jiangsu Anpon Electrochemical Co., Ltd.	Under the same controller	Account receivables		2,557,725.80	2,557,725.80		Credit	Occupation for operating purposes
Subtotal	——	——	——		**34,906,336.67**	**34,906,336.67**		——	——
Listed company's subsidiaries and their affiliated enterprises	Jingzhou Longhua Petrochemicals Co., Ltd.	The Company's subsidiary	Other receivables		4,945,000.00		4,945,000.00	Borrowing	Occupation for non-operating purposes
	Jingzhou Lingxiang Chemical Industry Co., Ltd.	The Company's subsidiary	Other receivables	30,256,776.05	12,638,269.25	12,895,045.30	30,000,000.00	Borrowing	Occupation for non-operating purposes
	Sanonda (Jingzhou) Pesticide & Chemicals Co., Ltd.	The Company's subsidiary	Other receivables	14,631,962.85	28,000,000.00		42,631,962.85	Borrowing	Occupation for non-operating purposes
Subtotal	——	——	——	**44,888,738.90**	**45,583,269.25**	**12,895,045.30**	**77,576,962.85**	——	——
Total	——	——	——	**44,888,738.90**	**90,128,164.72**	**57,280,013.22**	**77,736,890.40**	——	——

(2) At the end of the report period, the balance of capital occupied by the controlling shareholder and its subsidiaries for non-operating purposes was naught.

Section VIII. Report of Supervisory Board

I. Work of Supervisory Board in the reporting period

During the reporting period, four sessions were convened by the Supervisory Committee of the Company, with details as follows:

1. The First Session of the Sixth Supervisory Committee was held on 13 Apr. 2010, at which the following proposals were reviewed and approved: ① 2009 Annual Work Report of Supervisory Committee; ② 2009 Annual Final Financial Report; ③ 2009 Annual Report and its Summary; ④ Preplan for Profit Distribution and Turning Capital Reserve into Share Capital for Year 2009; ⑤ Proposal on Electing Mr. Zhang Jianguo as Chairman for Supervisory Committee; ⑥ Self-evaluation Report on Internal Control for 2009; and ⑦ Proposal on Retrospectively Adjusting Opening Amounts in Statements of 2009. And public notice on resolutions of the meeting was published on China Securities Journal, Securities Times and Ta Kung Pao, as well as http://www.cninfo.com.cn on 17 Apr. 2010.

2. The Second Session of the Sixth Supervisory Committee was held on 23 Apr. 2010, at which the First Quarterly Report 2010 was reviewed and approved.

3. The Third Session of the Sixth Supervisory Committee was held on 18 Aug. 2010, at which the 2010 Semi-annual Report and its Summary was reviewed and approved.

4. The Fourth Session of the Sixth Supervisory Committee was held on 21 Oct. 2010, at which the Third Quarterly Report 2010 was reviewed and approved.

II. Independent opinions of the Supervisory Committee concerning supervision on the Company

During the reporting period, all supervisors of the Company sat in on all board sessions, the 2009 Annual Shareholders' General Meeting and three special shareholders' general meetings held in 2010, as well as participating in the discussion on the Company's major decisions. As such, the Supervisory Committee expressed its independent opinions on the following matters for 2010.

1. About the Company's compliance with laws and regulations

In the reporting period, members of the Supervisory Committee attended all shareholders' general meetings, board sessions and other meetings. And the Supervisory Committee conducted checks and supervision concerning the Company's compliance with laws and regulations. The Supervisory Committee was of the opinion that: In the reporting period, pursuant to the Company Law, the Securities Law, the Code of Corporate Governance for Listed Companies, the Stock Listing Rules of Shenzhen Stock Exchange, and other relevant laws and regulations, the Company operated in strict compliance with relevant laws and regulations, with a legitimate procedure of decision-making. And the Company revised its internal control rules in a timely manner to ensure the safety and effective utilization of its assets. According to the Company's Articles of Association and other laws and regulations, the directors and senior executives of the Company diligently and honestly performed their duties and executed the resolutions made by the Shareholders' General Meeting and at the board sessions. And in the process of their carrying out responsibilities, they performed no acts in violation of laws, regulations or the Company's Articles of Association, or harmful to the interests of the Company.

2. About the supervision on the Company's finance. Based on its supervision on the Company's finance, the Supervisory Committee held the opinion that the quarterly, semi-yearly and annual financial reports of the Company factually and objectively

presented the Company's financial status, as well as its production and operation results, and that RSM China Certified Public Accounts Co., Ltd. issued an objective and factual unqualified opinion for the Company's financial report for 2010.

3. During the reporting period, members of the Supervisory Committee attended all sessions convened by the Board of Directors to review purchases of assets (equities). And the Supervisory Committee was of the opinion that the Company conducted asset (equity) purchases at rational transaction prices, without insider dealings, harm done to interests of all shareholders or asset loss of the Company.
The Company sold no assets within the reporting period.

4. About related-party transactions. In the reporting period, the Company conducted, with reasonable transaction prices, routine and special related transactions on the principle of fairness, impartiality and transparency, which thus did no harm to the interests of the Company and all its shareholders.

5. Upon a careful review of the Company's Self-evaluation Report on Internal Control for 2010, the Supervisory Committee was of the opinion that the Report presented the actual situation of the Company's internal control in a factual, accurate, thorough and objective manner.

Section IX. Significant Events

I. In the reporting period, there existed no significant lawsuits or arbitrations or bankrupt and reorganization where the Company was involved.

II. Particulars on shares of financial enterprises such as other listed companies, commercial banks, securities companies, insurance companies, trust companies and option companies and etc.:

1. Investments in shares: No
2. Investments in equities:

Name of entity in which the Company holds equities	Initial investment amount (RMB)	Number of equities held	Proportion in total equities of the entity	Book value at period-end (RMB)	Gain/loss in report period (RMB)	Changes in owners' equity in report period	Accounting item	Equity source
Commercial Bank of Jingzhou City	20,000,000.00	20,000,000	5.15%	8,008,982.63	0	0	Long-term equity investment	Purchase of primitive corporate stock
Total	20,000,000.00	20,000,000	-	8,008,982.63	0	0	-	-

III. In the reporting period, there existed no assets purchases, sales, consolidation by merger or other events.
During the reporting period, there existed no consolidation by merger or other events. While during the period of information disclosure of annual report for Y2010 (as 14 Feb. 2011), the 4th Session of the 6th Board of Directors reviewed and approved the Proposal on the consolidation by merger of Jingzhou Lingxiang Chemical Industry Co., Ltd. by Jingzhou Hongxiang Chemicals Co., Ltd., and the related formalities were still on the way.

IV. Significant related-party transactions in the reporting period
For details, please refer to "10. Relationship and Transactions with Related Parties" under "Notes to Financial Statement" in "Section X Financial Report".

V. Provision of guarantees

Unit: (RMB) Ten thousand

External guarantees of the Company (excluding those for subsidiaries)								
Guaranteed party	Disclosure date and number of the public notice in relation to the guarantee amount	Amount of guarantee	Date of occurrence (date of signing agreement)	Actual amount of guarantee	Type of guarantee	Term of guarantee	Execution completed or not	Guarantee for a related party or not (Yes or No)
Guangxi Hechi Chemical Co., Ltd.	12 Jan. 2008	10,000.00	12 Jan. 2008	10,000.00	Joint-liability guarantee	5 years	No	Yes
Total external guarantee amount approved in the		0.00		Total actual external guarantee amount in the		0.00		

reporting period (A1)		reporting period (A2)	
Total external guarantee amount approved by the period-end (A3)	0.00	Total actual external guarantee balance at the period-end (A4)	10,000.00

Guarantees provided by the Company for its subsidiaries

Guaranteed party	Disclosure date and number of the public notice in relation to the guarantee amount	Amount of guarantee	Date of occurrence (date of signing agreement)	Actual amount of guarantee	Type of guarantee	Term of guarantee	Execution completed or not	Guarantee for a related party or not (Yes or No)
Hubei Sanonda Foreign Trading Co., Ltd.	Announcement No.2010-012 disclosed on 13 Apr. 2010	22,800.00	13 Apr. 2010	22,800.00	Joint-liability guarantee	1 year	No	Yes

Total amount of guarantees for subsidiaries approved in the reporting period (B1)	22,800.00	Total actual amount of guarantees for subsidiaries in the reporting period (B2)	22,800.00
Total amount of guarantees for subsidiaries approved by the period-end (B3)	0.00	Total actual balance of guarantees for subsidiaries at the period-end (B4)	22,800.00
Total guarantee amount of the Company (combination of the two kinds of guarantees above)			
Total guarantee amount approved in the reporting period (A1+B1)	22,800.00	Total actual guarantee amount in the reporting period (A2+B2)	22,800.00
Total guarantee amount approved by the period-end (A3+B3)	0.00	Total actual guarantee balance at the period-end (A4+B4)	32,800.00

Proportion of the total actual guarantee balance (A4+B4) in the Company's net assets	29.67%
Of which:	
Guarantee amount offered to shareholders, actual controller and related parties (C)	10,000.00
Debt guarantee amount directly or indirectly provided for guaranteed parties with an asset-liability ratio over 70% (D)	22,800.00
Amount of total guarantee over 50% of net assets (E)	0.00
Total of above-mentioned three kinds of guarantees (C+D+E)	32,800.00
Explanation on possibility to bear joint liability due to undue guarantees	All guarantees provided by the Company for its subsidiaries were all with joint liability. And the guarantee for Guangxi Hechi Chemical Co., Ltd. was a mutual guarantee for a related party of RMB 100 million.

VI. Trusteeship, leasing and other significant contracts

In the reporting period, there was no trusteeship, leasing or other significant contracts.

VII. In the reporting period, the Company changed to engage RSM China Certified Public Accountants Co., Ltd. to provide the auditing service for the Company. The

Company paid RMB 400,000 to RSM China Certified Public Accountants Co., Ltd. as the audit fees for Y2010. The Vocation International Certified Public Accountants Co., Ltd. had successively provided the auditing service for the Company for five years.

VIII. In the reporting period, the Company, the Company's Board of Directors and its members received no investigation, administrative punishment, or notices of criticism from CSRC, as well as no open reprimand from the stock exchange.

IX. Visits and interviews received in the reporting period
In the reporting period, the Company received phone calls from investors with open arms and answered their questions in details. The reception process was in strict compliance with the Guide of Shenzhen Stock Exchange on Fair Information Disclosure for Listed Companies. The Company provided callers with the publicly disclosed information, and objectively, factually, accurately and completely introduced to the callers the Company's actual production and operation status. And it leaked no significant information which was undisclosed. In the reporting period, the Company received more than 10 phone calls from investor with no institutions or individual investors paying on-site visits to the Company.

Time	Place	Way of reception	Caller	Inquiry and materials provided by the Company
2010	Location of the Company	By telephone	Individual investors	Inquiry about the Company's production and operation, as well as relevant matters on disclosure of public notices. No materials were provided by the Company.

X. Fulfillment of corporate social responsibilities in the reporting period
1. Protection of the rights and interests of the shareholders and creditors: The Company fairly treated all its shareholders and creditors, and ensured that they could fully enjoy the legitimate rights and interests prescribed by laws and regulations.

2. Protection of the rights and interests of employees: In strict compliance with the Labor Law, the Company protected the legitimate rights and interests of its employees by establishing and improving the personnel system (including the remuneration system, incentive mechanism, etc..) and ensuring that the employees enjoy their rights to work and perform their obligations according to laws.

3. Protection of the rights and interests of suppliers, customers and consumers: The Company adopted an honest manner in dealing with the suppliers, customers and consumers. And it never gave false publicity by advertisements for profits. Nor it ever infringed the intellectual property rights (including copyrights, trademark rights, patent rights, etc.) of its suppliers and customers.

4. Environmental protection and sustainable development: The Company followed a policy of environmental protection. Meanwhile, it established a special department to provide human resource, material and technological support for the implementation, maintenance and improvement of the Company's environmental protection system, and the input for environmental protection totaled as RMB 13 million.

5. Public relationship and public welfare undertakings: The Company actively

participated in the local social welfare activities such as environmental protection activities and activities for helping the poor and the needy, which contributed to the local development. Meanwhile, the Company voluntarily laid its operation open to the supervision and checks from government departments and regulatory authorities, while keeping an eye on the comments from the public and the press.

XI. Commitments made and execution thereof

On 18 Sept. 2009, the Company's shareholders holding shares subject to trading moratorium Sanonda Group Corporation, Jingzhou Shahs Rural Credit Union and Jingzhou Sanonda Advertising Co., Ltd. had all accomplished fulfillment of commitments made by them in the share reform.

XII. Other significant events in reporting period

In the reporting period, there was no shareholders holding 5% of the Company's shares selling or buying the Company' shares in violation of the relevant rules.

Section X Financial Report

(I) Auditor's Report

Auditor's Report

ZRYHS Zi[2011]No. 01328

TO THE SHAREHOLDERS OF HUBEI SANONDA CO., LTD.

We have audited the accompanying financial statements of Hubei Sanonda Co., Ltd. (the "Company") and its subsidiaries (hereinafter jointly referred to as "the Group"), which comprise the consolidated and the Company's balance sheets as at 31 Dec. 2010, the consolidated and the Company's income statements, the consolidated and the Company's statements of change in equity, the consolidated and the Company's cash flow statements for the year then ended, and notes to the financial statements.

I. The management level's responsibility for the financial statements

Preparing financial statements in compliance with the Accounting Standards for Business Enterprises is the responsibility of the Company's management. This responsibility includes: (a) designing, implementing and maintaining internal control relevant to the preparation of these financial statements to prevent these financial statements from material misstatement arising from fraud or error; (b) selecting and applying proper accounting policies; and (c) making reasonable accounting estimates.

II. Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Auditing Standards for CICPA. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing audit procedures, so as to obtain audit evidence to support the amounts and disclosures in the financial statements. Audit procedures are relied on the auditors' judgments, including assessment on the risk of material misstatement of these financial statements arising from fraud or error. In risk assessment procedures, we consider internal controls relating to the preparation of these financial statements to design appropriate audit procedures, but our objective is not to express our opinion on the effectiveness of internal controls. An audit also includes assessing the reasonability of accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation.

We believe that the audit evidence we have obtained is sufficient and effective, providing a reasonable basis for our opinion.

III Audit opinion

In our opinion, the financial statements comply with the Accounting Standards for Business Enterprises and present fairly in all material respects the financial position of the Company as at 31 Dec. 2010 and its business results and cash flows for the year then ended.

RSM China Certified Public Accountants Co., Ltd. Beijing·China	CPAs of China：Hao Guomin CPAs of China：Zhao Jinyi

16 Mar. 2011

(II) Financial statement

Balance Sheet

Prepared by Hubei Sanonda Co., Ltd. 31 Dec. 2010 Unit: RMB Yuan

Items	Closing balance		Opening balance	
	Consolidation	The Company	Consolidation	The Company
Current Assets:				
Monetary funds	203,748,190.51	141,059,742.96	474,460,623.29	424,584,953.40
Settlement reserves				
Lendings to banks and other financial institutions				
Transactional financial assets				
Notes receivable	33,591,881.21	31,931,881.21	10,746,710.09	2,714,810.09
Accounts receivable	85,817,244.11	79,739,307.64	65,857,262.23	9,940,149.67
Accounts paid in advance	17,358,455.95	12,147,154.26	24,018,481.41	25,138,734.64
Premiums receivable				
Reinsurance premiums receivable				
Receivable reinsurance contract reserves				
Interest receivable				
Dividend receivable				
Other accounts receivable	34,747,002.71	100,040,050.80	19,220,669.32	97,072,583.33
Financial assets purchased under agreements to resell				
Inventories	275,951,648.02	221,107,344.13	198,762,663.23	146,279,805.97
Non-current assets due within 1 year				
Other current assets				
Total current assets	651,214,422.51	586,025,481.00	793,066,409.57	705,731,037.10
Non-current assets:				
Entrusted loans and advances granted				
Available-for-sale financial assets				
Held-to-maturity investments				
Long-term accounts receivable				
Long-term equity investment	10,828,382.63	48,983,405.95	11,378,382.63	49,533,405.95
Investing property	4,875,612.50	4,875,612.50	5,116,012.50	5,116,012.50
Fixed assets	707,041,960.12	658,308,612.67	778,661,093.09	728,578,456.14
Construction in progress	480,100,943.88	450,486,934.93	287,858,631.17	281,349,294.67
Engineering materials	164,468.82			
Disposal of fixed assets				
Production biological assets				
Oil-gas assets				
Intangible assets	146,496,684.36	133,260,813.21	150,488,348.86	136,774,286.23
Development expense				
Goodwill				
Long-term deferred expenses				
Deferred income tax assets	14,135,161.18	10,084,602.65	12,501,729.59	10,146,664.99
Other non-current assets				

Total of non-current assets	1,363,643,213.49	1,305,999,981.91	1,246,004,197.84	1,211,498,120.48
Total assets	2,014,857,636.00	1,892,025,462.91	2,039,070,607.41	1,917,229,157.58
Current liabilities:				
Short-term borrowings	31,186,235.61	10,000,000.00	39,899,274.54	35,000,000.00
Borrowings from Central Bank				
Customer bank deposits and due to banks and other financial institutions				
Borrowings from banks and other financial institutions				
Transactional financial liabilities				
Notes payable			5,000,000.00	5,000,000.00
Accounts payable	99,106,423.64	77,890,791.49	116,941,353.00	66,229,596.12
Accounts received in advance	63,264,694.18	32,689,813.89	30,731,258.63	18,309,739.93
Financial assets sold for repurchase				
Handling charges and commissions payable				
Employee's compensation payable	13,159,536.52	10,876,073.00	17,231,898.45	13,295,096.69
Tax payable	-19,617,426.18	-12,702,756.69	-4,458,696.03	2,208,088.91
Interest payable				
Dividend payable	349,463.30	349,463.30	349,463.30	349,463.30
Other accounts payable	32,314,989.04	25,112,456.35	39,413,834.96	27,182,609.39
Reinsurance premiums payable				
Insurance contract reserves				
Payables for acting trading of securities				
Payables for acting underwriting of securities				
Non-current liabilities due within 1 year	200,000,000.00	200,000,000.00	95,000,000.00	95,000,000.00
Other current liabilities				
Total current liabilities	419,763,916.11	344,215,841.34	340,108,386.85	262,574,594.34
Non-current liabilities:				
Long-term borrowings	459,560,000.00	459,560,000.00	579,560,000.00	579,560,000.00
Bonds payable				
Long-term payables	7,640,000.00	7,640,000.00	9,840,000.00	9,840,000.00
Specific payables				
Estimated liabilities				
Deferred income tax liabilities				
Other non-current liabilities	10,388,566.16	8,168,888.89	9,209,677.27	6,990,000.00
Total non-current liabilities	477,588,566.16	475,368,888.89	598,609,677.27	596,390,000.00
Total liabilities	897,352,482.27	819,584,730.23	938,718,064.12	858,964,594.34
Owners' equity (or shareholders' equity)				
Paid-up capital (or share capital)	593,923,220.00	593,923,220.00	593,923,220.00	593,923,220.00

Capital reserves	271,591,478.35	268,447,075.77	271,591,478.35	268,447,075.77
Less: Treasury stock				
Specific reserves	14,502,682.06	7,566,658.23	20,689,819.99	13,898,173.74
Surplus reserves	74,787,056.27	74,787,056.27	72,736,287.77	72,736,287.77
Provisions for general risks				
Retained profits	150,803,639.83	127,716,722.41	129,046,856.85	109,259,805.96
Foreign exchange difference				
Total equity attributable to owners of the Company	1,105,608,076.51	1,072,440,732.68	1,087,987,662.96	1,058,264,563.24
Minority interests	11,897,077.22		12,364,880.33	
Total owners' equity	1,117,505,153.73	1,072,440,732.68	1,100,352,543.29	1,058,264,563.24
Total liabilities and owners' equity	2,014,857,636.00	1,892,025,462.91	2,039,070,607.41	1,917,229,157.58

Income Statement

Prepared by Hubei Sanonda Co., Ltd. Jan.- Dec. 2010 Unit: RMB Yuan

Items	2010		2009	
	Consolidation	The Company	Consolidation	The Company
I. Total operating income	1,570,114,175.60	1,264,532,899.18	1,650,444,264.94	1,203,712,854.00
Including: Sales income	1,570,114,175.60	1,079,112,565.44	1,650,444,264.94	1,038,056,451.91
Interest income				
Premium income				
Handling charge and commission income				
II. Total operating cost	1,540,567,798.46	1,240,712,449.14	1,641,214,632.81	1,197,965,266.44
Including: Cost of sales	1,323,951,141.26	1,079,112,565.44	1,409,017,869.89	1,038,056,451.91
Interest expenses				
Handling charge and commission expenses				
Surrenders				
Net claims paid				
Net amount withdrawn for the insurance contract reserve				
Expenditure on policy dividends				
Reinsurance premium				
Taxes and associate charges	1,773,969.46	983,136.57	3,346,947.50	1,909,769.14
Selling and distribution expenses	58,515,642.26	40,794,562.08	59,852,751.77	43,475,486.42
Administrative expenses	83,661,648.09	56,725,631.36	99,374,972.70	64,733,449.68
Financial expenses	42,646,734.04	39,225,540.05	41,397,001.65	40,268,758.85
Asset impairment loss	30,018,663.35	23,871,013.64	28,225,089.30	9,521,350.44
Add: Gain/(loss) from change in fair value ("-" means loss)				
Gain/(loss) from investment ("-" means loss)	220,704.00	3,495,931.72	20,964,235.54	3,878,452.30
Including: share of profits in associates and joint ventures				
Foreign exchange gains ("-"				

means loss)				
III. Business profit ("-" means loss)	29,767,081.14	27,316,381.76	30,193,867.67	9,626,039.86
Add: non-operating income	5,728,560.34	1,500,151.14	6,029,679.66	264,771.22
Less: non-operating expense	3,614,979.14	1,497,157.06	5,432,474.98	4,531,340.36
Including: loss from non-current asset disposal	2,150,220.72	1,374,798.39	4,003,075.49	3,583,452.84
IV. Total profit ("-" means loss)	31,880,662.34	27,319,375.84	30,791,072.35	5,359,470.72
Less: Income tax expense	8,311,482.15	6,811,690.89	11,599,154.02	3,902,862.18
V. Net profit ("-" means loss)	23,569,180.19	20,507,684.95	19,191,918.33	1,456,608.54
Attributable to owners of the Company	23,807,551.48	20,507,684.95	19,310,850.13	1,456,608.54
Minority shareholders' income	-238,371.29		-118,931.80	
VI. Earnings per share				
(I) basic earnings per share	0.0401		0.0325	
(II) diluted earnings per share	0.0401		0.0325	
Ⅶ. Other comprehensive incomes			-142,625.99	
Ⅷ. Total comprehensive incomes	23,569,180.19	20,507,684.95	19,049,292.34	1,456,608.54
Attributable to owners of the Company	23,807,551.48	20,507,684.95	19,182,486.74	1,456,608.54
Attributable to minority shareholders	-238,371.29		-133,194.40	

Where there was business combination under the same control in the reporting period, the combined party achieved net profits of RMB 0.00 before the combination.

Cash Flow Statement

Prepared by Hubei Sanonda Co., Ltd. Jan.- Dec. 2010 Unit: RMB Yuan

Items	2010		2009	
	Consolidation	The Company	Consolidation	The Company
I. Cash flows from operating activities:				
Cash received from sale of commodities and rendering of service	1,601,318,190.29	1,364,105,349.09	1,573,671,456.62	1,167,883,718.07
Net increase of deposits from customers and dues from banks				
Net increase of loans from the central bank				
Net increase of funds borrowed from other financial institutions				
Cash received from premium of original insurance contracts				
Net cash received from				

reinsurance business				
Net increase of deposits of policy holders and investment fund				
Net increase of disposal of tradable financial assets				
Cash received from interest, handling charges and commissions				
Net increase of borrowings from banks and other financial institutions				
Net increase of funds in repurchase business				
Tax refunds received	41,067,053.37	34,024,466.92	22,494,693.64	14,867,937.73
Other cash received relating to operating activities	35,244,844.54	14,917,794.21	51,915,693.96	59,234,631.50
Subtotal of cash inflows from operating activities	1,677,630,088.20	1,413,047,610.22	1,648,081,844.22	1,241,986,287.30
Cash paid for goods and services	1,390,935,778.53	1,204,139,758.22	1,179,050,628.02	847,473,833.35
Net increase of customer lendings and advances				
Net increase of funds deposited in the central bank and amount due from banks				
Cash for paying claims of the original insurance contracts				
Cash for paying interest, handling charges and commissions				
Cash for paying policy dividends				
Cash paid to and for employees	119,762,602.55	95,325,202.38	126,673,115.70	95,242,668.46
Various taxes paid	24,726,529.10	16,348,901.28	81,888,725.79	61,862,827.68
Other cash payment relating to operating activities	71,982,887.20	66,216,704.64	72,205,587.09	42,588,293.95
Subtotal of cash outflows from operating activities	1,607,407,797.38	1,382,030,566.52	1,459,818,056.60	1,047,167,623.44
Net cash flows from operating activities	70,222,290.82	31,017,043.70	188,263,787.62	194,818,663.86
II. Cash flows from investing activities:				
Cash received from disposal of investments			10,246,198.46	10,246,198.46
Cash received from return on investments	220,704.00	3,495,931.72	1,092,552.97	11,971,751.08
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	126,950.87	69,134.87	7,375,721.92	3,346,199.63
Net cash received from	10,000,000.00	10,000,000.00	6,111,428.39	16,000,000.00

disposal of subsidiaries or other business units				
Other cash received relating to investing activities			2,219,677.27	
Subtotal of cash inflows from investing activities	10,347,654.87	13,565,066.59	27,045,579.01	41,564,149.17
Cash paid to acquire fixed assets, intangible assets and other long-term assets	254,207,249.09	234,385,153.58	385,871,317.46	350,945,710.32
Cash paid for investment			5,730,795.00	15,600,000.00
Net increase of pledged loans				
Net cash paid to acquire subsidiaries and other business units				
Payment of cash relating to other investing activities	11,150,000.00	11,150,000.00		30,000,000.00
Subtotal of cash outflows from investing activities	265,357,249.09	245,535,153.58	391,602,112.46	396,545,710.32
Net cash flows from investing activities	-255,009,594.22	-231,970,086.99	-364,556,533.45	-354,981,561.15
III. Cash Flows from Financing Activities:				
Cash received from capital contributions			4,900,000.00	
Including: Cash received from minority shareholder investments by subsidiaries			4,900,000.00	
Cash received from borrowings	581,797,741.57	440,000,000.00	616,000,000.00	595,000,000.00
Cash received from issuance of bonds				
Other cash received relating to financing activities				
Subtotal of cash inflows from financing activities	581,797,741.57	440,000,000.00	620,900,000.00	595,000,000.00
Repayment of borrowings	605,510,780.50	480,000,000.00	453,000,000.00	423,000,000.00
Cash paid for interest expenses and distribution of dividends or profit	54,419,217.21	37,744,567.26	74,384,738.22	71,914,822.10
Including: dividends or profit paid by subsidiaries to minority shareholders	350,000.00		1,417,133.12	
Other cash payments relating to financing activities	5,524,384.34	4,850,000.00	5,545,530.39	5,492,795.89
Sub-total of cash outflows from financing activities	665,454,382.05	522,594,567.26	532,930,268.61	500,407,617.99
Net cash flows from financing activities	-83,656,640.48	-82,594,567.26	87,969,731.39	94,592,382.01
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-2,268,488.90	22,400.11	-48,682.03	1,042.38

V. Net increase in cash and cash equivalents	-270,712,432.78	-283,525,210.44	-88,371,696.47	-65,569,472.90
Add: Cash and cash equivalents at year-begin	474,460,623.29	424,584,953.40	562,832,319.76	490,154,426.30
VI. Cash and cash equivalents at the end of the year	203,748,190.51	141,059,742.96	474,460,623.29	424,584,953.40

Statement of Changes in Owners' Equity (Consolidated)

Prepared by Hubei Sanonda Co., Ltd. Year 2010 Unit: RMB Yuan

Items	2010										2009									
	Equity attributable to owners of the Company								Minority interests	Total owners' equity	Equity attributable to owners of the Company								Minority interests	Total owners' equity
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus public reserve	General risk reserve	Retained profit	Others			Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus public reserve	General risk reserve	Retained profit	Others		
I. Balance at the end of the previous year	593,923,220.00	271,591,478.35		20,689,819.99	72,736,287.77		129,046,856.85		12,364,880.33	1,100,352,543.29	593,923,220.00	271,719,841.74			89,879,859.33		143,035,950.70		17,829,809.82	1,116,388,681.59
Add: change of accounting policy														22,451,964.08	-17,289,232.41		-5,603,366.50		440,634.83	
Correction of errors in previous periods																				
Other																				
II. Balance at the beginning of this year	593,923,220.00	271,591,478.35		20,689,819.99	72,736,287.77		129,046,856.85		12,364,880.33	1,100,352,543.29	593,923,220.00	271,719,841.74		22,451,964.08	72,590,626.92		137,432,584.20		18,270,444.65	1,116,388,681.59
III. Increase/ decrease of amount in this year ("-" means decrease)				-6,187,137.93	2,050,768.50		21,756,782.98		-467,803.11	17,152,610.44		-128,363.39		-1,762,144.09	145,660.85		-8,385,727.35		-5,905,564.32	-16,036,138.30
(I) Net profit							23,807,551.48		-238,371.29	23,569,180.19							19,310,850.13		-118,931.80	19,191,918.33
(II) Other comprehensive incomes												-128,363.39							-14,262.60	-142,625.99
Subtotal of (I) and (II)							23,80		-238,3	23,56		-128,3					19,31		-133,1	19,04

							7,551.48		71.29	9,180.19		63.39					0,850.13		94.40	9,292.34
(III) Capital paid in and reduced by owners														-3,660,462.28			2,248,656.34		-5,195,469.41	-6,607,275.35
1. Capital paid in by owners																			-5,599,813.82	-5,599,813.82
2. Amounts of share-based payments recognized in owners' equity																				
3. Others														-3,660,462.28			2,248,656.34		404,344.41	-1,007,461.53
(IV) Profit distribution					2,050,768.50		-2,050,768.50		-350,000.00	-350,000.00					145,660.85		-29,945,233.82		-1,417,133.12	-31,216,706.09
1. Appropriations to surplus reserves					2,050,768.50		-2,050,768.50								145,660.85		-145,660.85			
2. Appropriations to general risk provisions																				
3. Appropriations to owners (or shareholders)									-350,000.00	-350,000.00							-29,799,572.97		-1,417,133.12	-31,216,706.09
4. Other																				
(V) Internal carry-forward of owners' equity																				
1. New increase of capital (or share capital) from capital public																				

reserves																				
2. New increase of capital (or share capital) from surplus reserves																				
3. Surplus reserves for making up losses																				
4. Other																				
(Ⅵ) Specific reserve				-6,187,137.93					120,568.18	-6,066,569.75				1,898,318.19					840,232.61	2,738,550.80
1. Withdrawn for the period				11,880,689.70					1,114,146.14	12,994,835.84				13,553,404.98					885,777.79	14,439,182.77
2. Used in the period				18,067,827.63					993,577.96	19,061,405.59				11,655,086.79					45,545.18	11,700,631.97
(Ⅶ) Other																				
IV. Closing balance	593,923,220.00	271,591,478.35		14,502,682.06	74,787,056.27		150,803,639.83		11,897,077.22	1,117,505,153.73	593,923,220.00	271,591,478.35		20,689,819.99	72,736,287.77		129,046,856.85		12,364,880.33	1,100,352,543.29

Statement of Changes in Owners' Equity (the Company)

Prepared by Hubei Sanonda Co., Ltd. Year 2010 Unit: RMB Yuan

Items	2010								2009							
	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus public reserve	General risk reserve	Retained profit	Total owners' equity	Paid-up capital (or share capital)	Capital reserve	Less: treasury stock	Specific reserve	Surplus public reserve	General risk reserve	Retained profit	Total owners' equity
I. Balance at the end of the previous year	593,923,220.00	268,447,075.77		13,898,173.74	72,736,287.77		109,259,805.96	1,058,264,563.	593,923,220.00	268,447,075.77			89,879,859.33		136,824,191.70	1,089,074,346.

								24								80
Add: change of accounting policy												16,364,992.87	-17,289,232.41		924,239.54	
Correction of errors in previous periods																
Other																
II. Balance at the beginning of the year	593,923,220.00	268,447,075.77		13,898,173.74	72,736,287.77		109,259,805.96	1,058,264,563.24	593,923,220.00	268,447,075.77		16,364,992.87	72,590,626.92		137,748,431.24	1,089,074,346.80
III. Increase/ decrease of amount in the year ("-" means decrease)				-6,331,515.51	2,050,768.50		18,456,916.45	14,176,169.44				-2,466,819.13	145,660.85		-28,488,625.28	-30,809,783.56
(I) Net profit							20,507,684.95	20,507,684.95							1,456,608.54	1,456,608.54
(II) Other comprehensive incomes																
Subtotal of (I) and (II)							20,507,684.95	20,507,684.95							1,456,608.54	1,456,608.54
(III) Capital paid in and reduced by owners																
1. Capital paid in by owners																
2. Amounts of share-based payments recognized in owners' equity																
3. Others																
(IV) Profit distribution					2,050,768.50		-2,050,768.50						145,660.85		-29,945,233.82	-29,799,572.97
1. Appropriations to surplus reserves					2,050,768.50		-2,050,768.50						145,660.85		-145,660.85	
2. Appropriations to general risk provisions																

3. Appropriations to owners (or shareholders)															-29,799,572.97	-29,799,572.97
4. Other																
(V) Internal carry-forward of owners' equity																
1. New increase of capital (or share capital) from capital public reserves																
2. New increase of capital (or share capital) from surplus reserves																
3. Surplus reserves for making up losses																
4. Other																
(Ⅵ) Specific reserve				-6,331,515.51				-6,331,515.51				-2,466,819.13				-2,466,819.13
1. Withdrawn for the period				7,085,400.17				7,085,400.17				7,026,345.31				7,026,345.31
2. Used in the period				13,416,915.68				13,416,915.68				9,493,164.44				9,493,164.44
(Ⅶ) Other																
IV. Closing balance	593,923,220.00	268,447,075.77		7,566,658.23	74,787,056.27		127,716,722.41	1,072,440,732.68	593,923,220.00	268,447,075.77		13,898,173.74	72,736,287.77		109,259,805.96	1,058,264,563.24

Hubei Sanonda Co., Ltd.
Notes to Financial Statements for Year 2010

(***All amounts in RMB Yuan unless otherwise stated.***)

I. Company profile

Hubei Sanonda Co., Ltd. (hereinafter referred to as "Company" or "the Company") is formerly known as Hubei Sha City Pesticides Factory, a state-run enterprise set up in 1958. As approved by the Hubei Commission for Economic System Reformation and other authorities, Hubei Sha City Pesticides Factory was reorganized as Hubei Sanonda Co., Ltd., which marked Hubei's first large state-run industrial enterprise to adopt the stock system. On 8 Sept. 1992, upon the said reorganization, the Company was formally established. Later, as approved by the People's Government of Hubei Province and the China Securities Regulatory Commission ("CSRC"), the Company issued 30,000,000 RMB-denominated ordinary shares ("A shares") to the public in Nov. 1993. And the total share capital of the Company was 104,933,900 shares after the public offering. The Sha City Bureau for State-owned Assets Supervision and Administration is the first majority shareholder of the Company, with a capital contribution of RMB 57,467,900, accounting for 54.77% of the Company's total share capital. On 3 Dec. 1993, shares of the Company were listed in the Shenzhen Stock Exchange.

In Apr. 1994, a dividend distribution plan was reviewed and approved at the 1993 Annual Shareholders' General Meeting. RMB 2.00 was distributed in cash for every 10 shares held by the state and two bonus shares for every 10 shares held by individuals. The bonus shares were listed in 3 May 1994. And the Company's total share capital rose to 113,988,000 shares after distribution of the said bonus shares, with shares held by the first majority shareholder accounting for 50.42% of the Company's total shares.

In 1994, Jingzhou City and Sha City were combined and renamed as "Jingsha City", Jiangling County as "Jiangling District of Jingsha City", and the Sha City Bureau for State-owned Assets Supervision and Administration and the Jiangling County Bureau for State-owned Assets Supervision and Administration (originally two shareholders of the Company) as "the Jingsha City Bureau for State-owned Assets Supervision and Administration". As such, the 50.42% and 1.93% equity interests of the Company formerly held by the Sha City Bureau for State-owned Assets Supervision and Administration and the Jiangling County Bureau for State-owned Assets Supervision and Administration respectively were transferred to the Jingsha City Bureau for State-owned Assets Supervision and Administration, which held 52.35% of the Company's total shares.

In Jul. 1995, the Company held the 1994 Annual Shareholders' General Meeting, at which a share allotment plan (three shares being allotted for every ten shares) was reviewed and approved. After the said share allotment, the Company's total number of shares rose to 139,970,500, with the Jingsha City Bureau for State-owned Assets Supervision and Administration holding 44.66%.

On 9 Aug. 1995, as approved at the Company's 1994 Annual Shareholders' General Meeting, the Jingsha City Bureau for State-owned Assets Supervision and Administration transferred 3,002,700 shares it held in the Company (2.14% of the Company's total shares) to the Qichun County Bureau for State-owned Assets

Supervision and Administration. After the said transfer, the Jingsha City Bureau for State-owned Assets Supervision and Administration (the Company's first majority shareholder) held 50.21% of the Company's total shares.

In Nov. 1996, as approved by the "Document Zheng-Jian-Shang-Zi [1996] No.13" issued by CSRC, the Company carried out the share allotment plan (three shares being allotted for every ten shares) for the year 1996. A total of 41,991,100 shares of the Company were allotted, of which 19,552,900 shares were allotted for state-held shares and 22,438,200 shares for individual-held shares. After the said share allotment, the Company's total number of shares rose to 181,969,600. And the shareholding ratio of every shareholder remained unchanged after the allotment.

In 1996, pursuant to the "E-Zheng-Ban-Han [1995] No.92 Reply of People's Government of Hubei Province on Authorizing Sanonda Group to Operate State-owned Assets", in order to safeguard the state-owned shares of the Company held by it, the Jingsha City Bureau for State-owned Assets Supervision and Administration incorporated Sanonda Group and transferred the Company's equity interests it held to Sanonda Group. As such, Sanonda Group became the Company's first majority shareholder, holding 44.66% of the Company's total shares.

From 29 Apr. to 5 May 1997, as approved by the "Zheng-Fa (1997) No.23 Document" issued by the Securities Commission under the State Council, the Company issued 0.1 billion domestically-listed foreign shares (B shares) of RMB 1.00 par value, which were listed in the Shenzhen Stock Exchange for trading on 15 May 1997. And the Company exercised the over-allotment options of 15 million shares from 15 May to 21 May in the same year. After issuance of the said B shares, the Company's total number of shares rose to 296,961,600 shares, and the shareholding ratio of Sanonda Group—the Company's first majority shareholder—was changed to 27.52%.

On 20 May 2005, the Jingzhou City Bureau for State-owned Assets Supervision and Administration and China National Agrochemical Corporation (a wholly-owned subsidiary under China National Chemical Corporation) signed the "Agreement on Transferring Assets of Sanonda Group". The State-Owned Assets Supervision and Administration Commission of the People's Government of Hubei Province issued the "E-Guo-Zi-Chan-Quan [2005] No.177 Reply on Transferring State-owned Assets of Sanonda Group with Compensation". As a result, the People's Government of Jingzhou City was approved to transfer all state-owned assets of Sanonda Group to China National Agrochemical Corporation with compensation, with the transfer base date on 31 Dec. 2004. After the said transfer, Sanonda Group became a wholly-owned subsidiary under China National Agrochemical Corporation.

In 2006, pursuant to the "Guo-Zi-Chan-Quan [2006] No.767 Reply of State-owned Assets Supervision and Administration Commission under the State Council on Affairs Related to Share Reform of Hubei Sanonda Co., Ltd.", the "Share Reform Plan of Hubei Sanonda Co., Ltd." was reviewed and approved at the shareholders' general meeting held on 8 Jul. 2006. And the share reform was completed in Aug. 2006. With the base of 296,961,600 tradable shares, 2.2 shares were paid to tradable A-share holders by non-tradable share holders as consideration for every 10 tradable A-shares, with the total number of shares paid by non-tradable share holders to tradable share holders reaching 21,391,100,000 shares. After the share reform, the total number of the Company's shares remained unchanged, of which Sanonda Group held 61093,600 shares, accounting for 20.57% of the Company's total shares.

In Nov. 2006 and Mar. 2007, due to a dispute case concerning the provision of a loan guarantee by the Company's first majority shareholder—Sanonda Group—for an other company, 1.25 million and 0.40 million state-owned corporate shares of the Company held by Sanonda Group were forcibly transferred and auctioned by the court. After the auctions, shares of the Company held by Sanonda Group were reduced to 59,443,600 shares, accounting for 20.02% of the Company's total shares.

In May 2007, the Company held the 2006 Annual Shareholders' General Meeting, at which the plan for turning capital reserve to share capital was reviewed and approved. As a result, 10 shares were increased for every 10 shares held by all shareholders in Jul. 2007. After the increase, the Company's total number of shares rose to 593,923,200 shares. The first majority shareholder—Sanonda Group—held 118,887,200 shares, accounting for 20.02% of the Company's total shares. And for the period up to 31 Dec. 2010, the share capital of the Company remained unchanged.

As at the balance sheet date, Legal representative of the Company: Li Zuorong; Registered address: No.93, Beijing East Road, Jingzhou, Hubei Province, PRC; Stock abbreviation: Sanonda A/ Sanonda B; and Stock code: 000553/ 200553.

The Company and its subsidiaries (hereinafter referred to as "the Group") is principally engaged in pesticide products such as orthene, paraquate, glyphosate, trichlorphon, DDVP, omethoate, triazophos, imidacloprid and carbofuran; chemical products such as spermine, liquid caustic soda, liquefied chlorine gas and hydrochloric acid. The Company has the rights of handling import and export business. And the Company has passed ISO9002 Quality System Certification and ISO14001 Environment Management System Certification.

The parent company of the Group is Sanonda Group and the ultimate parent company is China National Chemical Corporation.

The financial statements for 2010 have been authorized to be issued by at the board session held by the Company on 16 Mar. 2011.

II. Basis of financial statement preparation

With the going-concern assumption as the basis and based on transactions and other events that actually occurred, the Group prepared financial statements in accordance with the Basic Standard and 38 specific standards of Accounting Standards for Business Enterprises issued by Ministry of Finance of the PRC on 15 February 2006, Application Guidance of Accounting Standard for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (hereinafter referred to as "the Accounting Standards for Business Enterprises", "China Accounting Standards" or "CAS"), Rules for Preparation Convention of Disclosure of Public Offering Companies No.15 – General Regulations for Financial Reporting (revised in 2010) by China Securities Regulatory Commission.

In accordance with relevant provisions of the Accounting Standards for Business Enterprises, the Group adopted the accrual basis in accounting. Except for some financial instruments, the financial statements for 2010 were prepared on the historical cost basis. Where impairment occurred on an asset, an impairment reserve was withdrawn accordingly pursuant to relevant requirements.

III. Statement of Compliance with Accounting Standards for Business Enterprises

The financial statements prepared by the Group are in compliance with in compliance with the Accounting Standards for Business Enterprises, which factually and completely present the Company's and the Group's financial positions as at 31 Dec. 2010, business results and cash flows for the year then ended, and other relevant information. In addition, the Company's and the Group's financial statements meet the requirements of disclosing financial statements and notes thereto stated in the Rules for Preparation Convention of Disclosure of Public Offering Companies No.15 – General Regulations for Financial Reporting (revised in 2010) by China Securities Regulatory Commission.

IV. Major accounting policies and accounting estimates

1. Fiscal period

The Group's fiscal periods include fiscal years and fiscal periods shorter than a complete fiscal year. The Group's fiscal year starts on 1 Jan. and ends on 31 Dec. of every year according to the Gregorian calendar.

2. Bookkeeping base currency

Renminbi is the dominant currency used in the economic circumstances where the Company and its domestic subsidiaries are involved. Therefore, the Company and its domestic subsidiaries use Renminbi as their bookkeeping base currency. And the Group adopted Renminbi as the bookkeeping base currency when preparing the financial statements for 2010.

3. Accounting methods for business combinations

The term "business combinations" refers to a transaction or event bringing two or more separate enterprises into one reporting entity. Business combinations are classified into the business combinations under the same control and the business combinations not under the same control.

(1) Business combinations under the same control

A business combination under the same control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or the same parties both before and after the business combination and on which the control is not temporary. In a business combination under the same control, the party which obtains control of other combining enterprise(s) on the combining date is the combining party, the other combining enterprise(s) is (are) the combined party. The "combining date" refers to the date on which the combining party actually obtains control on the combined party.

The assets and liabilities that the combining party obtains in a business combination shall be measured on the basis of their carrying amount in the combined party on the combining date. As for the balance between the carrying amount of the net assets obtained by the combining party and the carrying amount of the consideration paid by it (or the total par value of the shares issued), the additional paid-in capital (share premium) shall be adjusted. If the additional paid-in capital (share premium) is not sufficient to be offset, the retained earnings shall be adjusted.

The direct cost for the business combination of the combining party shall be recorded into the profits and losses at the current period.

(2) Business combinations not under the same control

A business combination not under the same control is a business combination in which the combining enterprises are not ultimately controlled by the same party or the same parties both before and after the business combination. In a business combination not under the same control, the party which obtains the control on other combining enterprise(s) on the purchase date is the acquirer, and other combining enterprise(s) is (are) the acquiree.

For a business combination not under the same control, the combination costs shall include the fair values, on the acquisition date, of the assets paid, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control on the acquiree, the expenses for audit, legal services and assessment, and other administrative expenses, which are recorded into the profits and losses in the current period. The trading expenses for the equity securities or debt securities issued by the acquirer as the combination consideration shall be recorded into the amount of initial measurement of the equity securities or debt securities. An adjustment to the combination cost which is likely to happen and can be reliably measured, shall be recognized into the contingent consideration, of which the subsequent measurement has an impact on goodwill. The involved contingent consideration shall be recorded into the combination costs at its fair value on the acquiring date. Where new or further evidences emerge, within 12 months since the acquiring date, against the existing circumstances on the acquiring date and the contingent consideration thus needs to be adjusted, the combined goodwill shall be adjusted accordingly. In a business combination realized by two or more transactions of exchange, in the Group's consolidated financial statements, as for the equity interests that the Group holds in the acquiree before the acquiring date, they shall be re-measured according to their fair values at the acquiring date; the positive difference between their fair values and carrying amounts shall be recorded into the investment gains for the period including the acquiring date; other comprehensive gains in relation to the equity interests that the Group holds in the acquiree before the acquiring date shall be transferred into investment gains in the current period; and the combination costs shall be the summation of the fair values at the acquiring date of the equity interests that the Group holds in the acquiree before the acquiring date and the fair values at the acquiring date of the equity interests that Group increases in the acquiree on the acquiring date.

The combination costs of the acquirer and the identifiable net assets obtained by it in the combination shall be measured according to their fair values at the acquiring date. The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquiree as business reputation. Where the combination costs are less then the fair value of the identifiable net assets it obtains from the acquiree, the acquirer shall re-examine the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities it obtains from the acquiree as well as the combination costs. If, after the reexamination, the combination costs are still less than the fair value of the identifiable net assets it obtains from the acquiree, the acquirer shall record the balance into the profits and losses of the current period.

As for the deductible temporary differences the acquirer obtains from the acquiree which are not recognized into deferred income tax liabilities due to their not meeting the recognition standards, if new or further information shows that the relevant situation has existed on the acquiring date and the economic benefits brought by the deductible temporary differences the acquirer obtains from the acquiree on the acquiring date can be realized, they shall be recognized into deferred income tax assets and the relevant goodwill shall be reduced. Where the goodwill is not sufficient to be offset, the difference shall be recognized into the profits and losses in the current period. In other circumstances than the above, where the deductible temporary differences are recognized into deferred income tax assets on the acquiring date, they shall be recorded into the profits and losses in the current period.

4. Methods for preparing consolidated financial statements

(1) Principle for determining the consolidation scope

The consolidation scope for financial statements is determined on the basis of control. The term “control” is the power of the Company to determine financial and business policies of an investee and obtain benefits from the investee’s operating activities. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. A subsidiary is an enterprise or entity controlled by the Company.

(2) Preparation of consolidated financial statements

Subsidiaries are fully consolidated from the date on which the Group obtains control on their net assets and operation decision-making and are de-consolidated from the date when such control ceases. As for a disposed subsidiary, its operating results and cash flows before the disposal date has been appropriately included in the consolidated income statement and cash flow statement; and as for subsidiaries disposed in the current period, the opening items in the consolidated balance sheet are not adjusted. For a subsidiary acquired in a business combination not under the same control, its operating results and cash flows after the acquiring date have been appropriately included in the consolidated income statement and cash flow statement, and the opening items and comparative items in the consolidated financial statements are not adjusted. For a subsidiary acquired in a business combination under the same control or a combined party obtained in a takeover, its operating results and cash flows from the beginning of the reporting period of the combination to the combination date have been appropriately included in the consolidated income statement and cash flow statement, and the comparative items in the consolidated financial statements are adjusted at the same time.

The financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company during the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries. For a subsidiary acquired from a business combination not under the same control, the individual financial statements of the subsidiary are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealized profits are offset in the consolidated financial statements.

The portion of a subsidiary’s shareholders’ equity and the portion of a subsidiary’s net profits and losses for the period not held by the Company are recognized as minority interests and minority shareholder profits and losses respectively and presented separately under shareholders’ equity and net profits in the consolidation financial statements. The portion of a subsidiary’s net profits and losses for the period that belong to minority interests is presented as the item of “minority shareholder profits and losses” under the bigger item of net profits in the consolidated financial statements. Where the loss of a subsidiary shared by minority shareholders exceeds the portion enjoyed by minority shareholders in the subsidiary’s opening owners’ equity, minority interests are offset.

Where the Company losses control on its original subsidiaries due to disposal of some equity investments or other reasons, the residual equity interests are re-measured according to the fair value on the date when such control ceases. The summation of the consideration obtained from the disposal of equity interests and the fair value of the residual equity interests, minus the portion in the original subsidiary's net assets measured on a continuous basis from the acquisition date that is enjoyable by the Company according to the original shareholding percentage in the subsidiary, is recorded in investment gains for the period when the Company's control on the subsidiary ceases. Other comprehensive incomes in relation to the equity investment in the original subsidiary are transferred to investment gains for the period when such control ceases. And subsequent measurement is conducted on the residual equity interests according to the No.2 Accounting Standard for Business Enterprises —Long-term Equity Investments or the No.22 Accounting Standard for Business Enterprises—Recognition and Measurement of Financial Instruments. For more details, see Provision No.10 "Long-term Equity Investment" Provision No.7 "Financial Instruments" under Item Ⅳ of the Notes.

5. Recognition standard for cash and cash equivalents

In cash flow statement, cash defines cash on hand and any deposit that can be used for cover, while cash equivalents are short-term (usually due within 3 months since the day of purchase) and high circulating investments, which are easily convertible into known amount of cash and whose risks in change of value are minimal.

6. Accounting treatments for foreign currency transaction and translation of foreign currency financial statement

(1) Accounting treatments for foreign currency transaction

As for a foreign currency transaction, the Company shall convert the amount in a foreign currency into amount in its bookkeeping base at the spot exchange rate of the transaction date, while as for such transactions as foreign exchange or involving in foreign exchange, the Company shall converted into amount in the bookkeeping base currency at actual exchange rate the transaction is occurred.

(2) Accounting treatments for translation of foreign currency monetary items and nonmonetary items

On the balance sheet date, the foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The exchange difference arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date shall be recorded in the profits and losses in the current period, excluding the following situations:

① the exchange difference arising from foreign currency loans related to acquisition of fixed assets shall be treated at the principle of capitalization of borrowing costs;

② the exchange difference arising from change in the book balance of foreign currency monetary items available for sale except the amortized costs shall be recorded into other comprehensive gains and losses.

A foreign currency non-monetary item measured at the historical costs shall still be translated at the spot exchange rate on the transaction date. Where the foreign nonmonetary items measured at the fair value shall be converted into amount in its bookkeeping base currency at spot exchange rate, the exchange gains and losses arising thereof shall be treated as change in fair value, and recorded into the current period gains and losses or as other comprehensive gains and losses and recorded into capital reserves.

(3) Accounting treatments of translation of Foreign Currency Financial Statements
When it involves overseas business in preparing the consolidated financial statement, for the translation difference of foreign currency monetary items of net investment in overseas business arising from the change in exchange rate, it shall be recorded into the item of "difference of foreign currency financial statement translation" under the owners' equity; and be recorded into disposal gains and losses at current period when disposing overseas business.
The foreign currency financial statement of overseas business should be translated in to RMB financial statement by the following methods: The asset and liability items in the balance sheets shall be translated at a spot exchange rate on the balance sheet date. Among the owner's equity items, except for the items as "undistributed profits", other items shall be translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit statements shall be translated at the spot exchange rate of the transaction date. The undistributed profits at year-begin is the undistributed profits at the end of last year after the translation; undistributed profits at year-end shall be listed as various distribution items after the translation; after the translation, the balance between assets and the sum of liabilities and owners' equities shall be recorded into other comprehensive gains and losses as difference of foreign currency translation, and individually listed under the item of owners' equity in the balance sheet. Where an enterprise disposes of an overseas business without the control right, it shall shift the differences, which is presented under the items of the owner's equities in the balance sheet and which arises from the translation of foreign currency financial statements relating to this overseas business, into the disposal profits and losses of the current period by all or proportion of the disposed overseas business.
Foreign cash flow shall be translated at the spot exchange rate of the date of cash flow incurred. The influence of exchange rate on the cash flow shall be adjustment item and individually listed in the cash flow statement.
And the opening balance and the actual balance of last year shall be listed at the amounts after translation of foreign currency financial statement in last year.

7. Financial instruments

(1) Determination of the fair value of main financial assets and financial liabilities
Fair value refers to the price that both parties who are familiar with the situation are willing to exchange assets or reimburse liabilities.
As for the financial assets or financial liabilities for which there is an active market, the quoted prices in the active market shall be used to determine the fair values thereof. The quoted prices in the active market refers to the prices available from stock exchange, broker's agencies, guilds, pricing organization and etc, which represent the actual trading price under equal transaction. Where there is no active market for a financial instrument, the enterprise concerned shall adopt value appraisal techniques, including the prices adopted by the parties, who are familiar with the condition, in the latest market transaction upon their own free will, the current fair value obtained by referring to other financial instruments of the same essential nature, the cash flow capitalization method and the option pricing model, etc., to determine

its fair value.

(2) Classification, recognition and measurement of financial assets

The purchase and sale of financial assets under the normal ways shall be recognized and stopped to be recognized respectively at the price of transaction date. Financial assets shall be classified into the following four categories when they are initially recognized: (a) the financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period, (b) the investments which will be held to their maturity; (c) loans and the account receivables; and (d)financial assets available for sale. The financial assets are measured by fair value for initial recognition. For the financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period, the related expenses shall be directly recorded into gains and losses of current period, as for other financial assets, the related transactional expenses shall be recorded into the amount of initial recognition.

① The financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period

Including transactional financial assets and the financial assets which are designated to be measured at their fair value when they are initially recognized and of which the variation is recorded into the profits and losses of the current period;

The financial assets meeting any of the following requirements shall be classified as transactional financial assets：A. The purpose to acquire the said financial assets is mainly for selling them in the near future; B. Forming a part of the identifiable combination of financial instruments which are managed in a centralized way and for which there are objective evidences proving that the enterprise may manage the combination by way of short-term profit making in the near future; C. Being a derivative instrument, excluding the designated derivative instruments which are effective hedging instruments, or derivative instruments to financial guarantee contracts, and the derivative instruments which are connected with the equity instrument investments for which there is no quoted price in the active market, whose fair value cannot be reliably measured, and which shall be settled by delivering the said equity instruments.

The financial assets meeting any of the following requirements shall be designated as financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period for initial recognition: A. the designation can eliminate or significantly reduce the difference of relevant gains and losses between recognition and measurement causing from different bases for measurement of financial assets; B. The official written documents for risk management and investment strategies of the enterprise have clearly stated that it shall ,manage, evaluate and report to important management personnel based on the fair value, about the financial assets group or the group of financial assets & liabilities which the financial assets are belong to.

For the financial assets which are measured at their fair values and the variation of which is recorded into the profits and losses of the current period shall continue to be measured by fair value, gains and losses of change in fair value, dividends and interest related with these financial assets should be recorded into gains and losses of current period.

② Held-to-maturity investment

The term "held-to-maturity investment" refers to a non-derivative financial asset with a fixed date of maturity, a fixed or determinable amount of repo price and which the enterprise holds for a definite purpose or the enterprise is able to hold until its maturity.

For the held-to-maturity investment adopting actual interest rate method, which is measured at the post-amortization costs, the profits and losses that arise when such financial assets or financial liabilities are terminated from recognition, or are impaired or amortized, shall be recorded into the profits and losses of the current period.

The actual interest rate method refers to the method by which the post-amortization costs and the interest incomes of different installments or interest expenses are calculated in light of the actual interest rates of the financial assets or financial liabilities (including a set of financial assets or financial liabilities). The actual interest rate refers to the interest rate adopted to cash the future cash flow of a financial asset or financial liability within the predicted term of existence or within a shorter applicable term into the current carrying amount of the financial asset or financial liability.

When the actual interest rate is determined, the future cash flow shall be predicted on the basis of taking into account all the contractual provisions concerning the financial asset or financial liability(the future credit losses shall not be taken into account).and also the various fee charges, trading expenses, premiums or reduced values, etc., which are paid or collected by the parties to a financial asset or financial liability contract and which form a part of the actual interest rate.

③ Loans and the accounts receivables

Loans and the accounts receivables refer to non-derivative financial assets, which there is no quotation in the active market, with fixed recovery cost or recognizable.

Financial assets that are defined as loans and the accounts receivables by the Group including notes receivables, accounts receivables, interest receivable, dividends receivable and other receivables etc..

Loans and the accounts receivables are made follow-up measurement on the basis of post-amortization costs employing the effective interest method. Gains or loss arising from the termination recognition, impairment occurs or amortization shall be recorded into the profits and losses of the current period.

④ Assets available for sales

Assets available for sales including non-derivative financial asset that has been assigned as assets available for sales on the initial recognition and financial assets excluded those measured at fair value and of which the variation into profits and losses of the current period, they are some financial assets, loans and accounts receivables, held-to-maturity investment.

The Group shall make follow-up measurement to assets available for sales employing fair value. Gains or loss in fair value changes deducted impairment loss and relevant exchange difference from monetary financial assets of foreign currency and amortized cost shall be recorded into the profits and losses of the current period, and shall be recorded into capital reserves as other comprehensive income and be carried forward when the said financial assets stopped recognition, then it shall be recorded into the profits and losses of the current period.

Interest receive during the holding of assets available for sales and cash dividends with distribution announcement by invested companies, it shall be recorded into the profits and losses of the current period.

(3) Financial assets impairment

Except for financial assets that shall be recoded into profits and losses of the current period by measuring at fair value and variations, the Group shall carry out impairment test, on all balance sheet days, to book value of other financial assets, where there are objective evidences proving that a financial asset has been impaired, make provision for impairment for such financial asset.

The Group shall carry out independent impairment test to financial assets of significant single amounts. With regard to the financial assets with insignificant single amounts, an independent impairment test shall be included in a combination of financial assets with similar credit risk features so as to carry out an impairment-related test. Where, upon independent test, the financial asset (including those financial assets with significant single amounts and those with insignificant amounts) has not been impaired, it shall be included in a combination of financial assets with similar risk features so as to conduct another impairment test. Financial assets that has conducted independent test as impairment loss shall not be included in a combination of financial assets with similar risk features so as to conduct another impairment test.

① Impairment for held-to-maturity investments, loans and accounts receivables

As for a financial assets measured on the basis of cost or post-amortization cost, its book value writes down to current value of predicted future cash flow, the write down amount is recorded as impairment loss and written into profits and losses of the current period. When the impairment loss of a financial asset is recognized, if there is objective evidence proving that value of the said financial asset is recovered and objectively relevant to events occurred after the recognition of the said loss, then reverse the recognized impairment loss. Moreover, the book value after reverse shall not over the post-amortization cost on the reverse date and under expected no-occurrence of provision for impairment.

② Impairment for available-for-sales assets

When there is impairment occurred in available-for-sales assets, reversed and recorded the accumulated losses that originally recorded into capital reserve due to the fall of fair value into profits and losses of the current period. The reversed accumulated loss is the balance of the initial income cost of the said asset deducted the retracted principal, amortized amounts, current fair value as well as impairment loss originally recorded into profits and losses of current period.

Where the impairment loss of a financial asset is recognized, if there is objective evidence proving that value of the financial asset is recovered and objectively relevant to events occurred after the recognition of the said loss, then reverse the recognized impairment loss. Moreover, the reverse of equity instruments available for sales is recognized as other comprehensive income and the impairment of debt instruments is recorded into profits and losses of current period.

The equity instrument investments for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by delivering the said equity instrument shall not be reversed.

(4) Recognition and measurement method of financial assets

Financial asset that satisfies one of the following conditions, its recognition shall be stopped: (a) the contracted right of receiving cash flow of the said financial assets ceases, and (b) the said financial assets is transferred and nearly all of the risks and rewards related to the ownership is transferred into the carrying party, and (c) the said asset is transferred, though the corporate neither transferred, no retain nearly all of the risks and rewards related to the ownership, it gives up the control of the said asset.

If the corporate neither transferred, no retain nearly all of the risks and rewards related to the ownership and it does not give up the control of the said financial asset, then the recognition of relevant asset is recorded according to the extent of its continuous involvement in the transferred financial asset. The extent of its continuous involvement in the transferred financial asset refers to the risk the corporate come across with the change in the value of financial asset.
If the transfer of an entire financial asset satisfies the conditions for stopping recognition, the book value of the transferred financial asset and the sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the owner's equities shall be recorded in the profits and losses of the current period.

If the transfer of partial financial asset satisfies the conditions to stop the recognition, the entire book value of the transferred financial asset shall, between the portion whose recognition has been stopped and the portion whose recognition has not been stopped, be apportioned according to their respective relative fair value, and the book value of the portion whose recognition has been stopped and he sum of consideration of the portion whose recognition has been stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded in the owner's equities which are corresponding to the portion whose recognition has been stopped shall be included into the profits and losses of the current period:

(5) Classification and measurement of financial assets and financial liabilities
Financial liabilities shall be classified into the financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses and other financial liabilities. The initial recognition of financial liabilities is measured on the basis of fair value. Where financial liabilities is measured on the basis fair value and of which the variation is recorded into profits and losses of the current period, relevant exchange expenses directly recorded into profits and losses of the current period. For other financial liabilities, relevant exchange expenses are recorded into initial recognition amounts.

① Financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses

The condition to divide certain financial liabilities into transactional financial liabilities and the designated financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses is in line with the condition to divide certain financial assets into transactional financial assets and the designated financial assets which are measured at their fair values and of which the variation is included in the current profits and losses.

Financial liabilities which are measured at their fair values and of which the variation is included in the current profits and losses shall be subsequently measured at their fair values. Gains and losses formed by fair value changes, as well as dividends and interests relating to those financial assets shall be recorded into current profits and losses.

② Other financial liabilities

For the derivative financial liabilities, which are connected to the equity instrument for which there is no quotation in the active market and whose fair value cannot be reliably measured, and which must be settled by delivering the equity instrument, they shall be measured on the basis of their costs. Other financial liabilities shall be subsequently measured on the basis of the post-amortization costs by adopting the actual interest rate method. Gains or losses arising from the termination of recognition or amortization shall be recorded into current profits and losses.

③ Financial guarantee contracts

For the financial guarantee contracts which are not designated as a financial liability measured at its fair value and the variation thereof is recorded into the profits and losses of the current period, they shall be initially recognized at their fair values. a subsequent measurement shall be made after they are initially recognized according to the higher one of the following: i.the amount as determined according to the Accounting Standards for Enterprises No. 13 - Contingencies; or ii.the surplus after accumulative amortization as determined according to the principles of the Accounting Standards for Enterprises No. 14 - Revenues is subtracted from the initially recognized amount.

(6) Termination of recognition of financial liabilities

Only when the prevailing obligations of a financial liability are relieved in all or in part may the recognition of the financial liability be terminated in all or partly. Where the Group enters into an agreement with a creditor so as to substitute the existing financial liabilities by way of any new financial liability, and if the contractual stipulations regarding the new financial liability is substantially different from that regarding the existing financial liability, it shall terminate the recognition of the existing financial liability, and shall at the same time recognize the new financial liability.

Where the recognition of a financial liability is totally or partially terminated, the Group shall include into the profits and losses of the current period the gap between the carrying amount which has been terminated from recognition and the considerations it has paid (including the non-cash assets it has transferred out and the new financial liabilities it has assumed).

(7) Derivative instruments and embedded derivative instruments

Derivative instruments shall be initially measured at their values on the relating date of contract signing, and shall be subsequently measured at their fair values. Changes of fair values of derivative instruments shall be recorded into current profits and losses.

Where a mixed instrument including an embedded derivative instrument fails to be designated as a financial asset or financial liability measured at its fair value and of which the variation is included in the current profits and losses, and it can simultaneously meet the following conditions, the embedded derivative instrument shall be separated from the mixed instrument and treated as an independent derivative instrument: i. Where there is no close relationship between it and the principal contract in terms of economic features and risks; and ii. Where it shares the same conditions with that of the embedded derivative instrument, and the independent instrument meets the requirements of the definition of derivative instrument. Where it is impossible to make an independent measurement when it is obtained or subsequently on the balance sheet date, the mixed instrument shall be designated entirely as a financial asset or financial liability measured at its fair value and of which the variation is included in the current profits and losses.

(8) Offset of financial assets against financial liabilities

When the Group holds the legal right to offset recognized financial assets and financial liabilities, and can execute that legal right at present, and at the same time the Group plans to settle the financial assets and liabilities with net amount, or to simultaneously realize the financial assets and pay off the financial liabilities, then the amounts of financial assets and financial liabilities after offsetting against each other shall be stated in the balance sheet. Except for that, financial assets and financial liabilities shall be separately stated in the balance sheet, with no offset against each other.

(9) Equity instruments

The "equity instruments" refers to the contracts which can prove that a certain enterprise holds the surplus equities of the assets after the deduction of all the debts. As for equity instruments, the owner’s equity shall be increased after deducting transaction expenses from considerations received at the time of issuance.

The Group shall decrease owner’s equity on all distributions (stock dividends not included) of equity instrument holders. The Group shall not recognize the amount of changes in fair values of equity instruments.

8. Receivables

Receivables include accounts receivable and other receivables, etc.

(1) Recognition standards for bad debts

The Group shall carry out an inspection, on the balance sheet day, on the carrying amount of receivables. Where there is any objective evidence proving that such receivable has been impaired, an impairment provision shall be made: ①A serious financial difficulty occurs to the debtor; ②The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal, etc.; ③The debtor will probably become bankrupt or carry out other financial reorganizations; ④Other objective evidences indicating that such receivable has been impaired.

(2) Withdrawal method and proportion of bad debt provisions

①Independent impairment test shall be separately made on the following receivables: i. receivables with significant single amounts (the balance is of or over 5 million) ; ii. receivables with insignificant single amounts (the balance is below 5 million), yet of great risk in a combination after combined with credit risk features (such as receivables of related parties; receivables over which there exist disputes against the opposite parties or receivables concerning lawsuits and arbitrations; and receivables of which there are obvious signs indicating that debtors may not be able to fulfill repayment obligations). Impairment losses shall be recognized and bad debt provisions shall be withdrawn in accordance with the difference between the current value of the future cash flow and the carrying amount thereof.

②Except for the 2 aforesaid receivables, other receivable shall be divided into several combinations in light of aging. Impairment losses shall be recognized and bad debt provisions shall be withdrawn in light of certain proportion of the closing balances of such combinations of receivables. The withdrawal method for bad debt provisions of such receivables for the current year is: to implement 5 % withdrawal of closing balance of receivables of all levels of aging, and to implement 100% withdrawal for receivables of or over 5 years.

③Any receivables indicating to be definitely uncollectible with well-established evidence, shall be recognized as bed debts and written off against provision for bad debts as approved by the Shareholder’s General Meeting or Board of Directors in light of the administration authority of the company.

(3) Reversal of bad debt provisions

If there is any objective evidence proving that the value of the said receivable has been restored, and it is objectively related to the events that occur after such loss is recognized, the impairment-related losses as originally recognized shall be reversed and be recorded into the profits and losses of the current period. However, the reversed carrying amount shall not be any more than the post-amortization costs of the said receivable on the day of reverse under the assumption that no provision is made for the impairment.

If the Group transfer receivables to financial institutions with unattached recourse, then the difference through deducting the carrying amount of the written-off accounts receivable and relevant taxes shall be recorded into current profits and losses.

9. Inventories

(1) The inventories of the Group include raw materials, goods in process, merchandise on hand, consigned processing materials, goods in transit, packaging materials, and low value consumables, etc.

(2) The inventories shall be initially measured in light of their cost. On the date of balance sheet, the inventories shall be measured whichever is lower in accordance with the cost and the net realizable value.

(3) Physical inventory at fixed periods shall be taken under perpetual inventory system.

(4) Bulk chemical raw materials, goods in process and finished products shall be priced at actual cost, while cost of sending out inventories shall be carried forward at the weighted average method. Auxiliary material and packaging materials shall be priced at actual cost and be measured by adopting planned cost; the difference between the actual cost and planned cost shall be recorded into materials cost variance when measurement, which materials cost variance allocable thereto shall be calculated based on materials cost difference rate at the end of month, and the planned cost of sending out materials shall be adjusted as actual cost. Low value consumables shall be recoded at actual cost and be amortized by employing the one-off write-off method when claiming.

(5) Inventories shall be measured whichever is lower in accordance with the cost and the net realizable value at the period-end. If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made and be included in the current profits and losses. If the factors causing any write-down of the inventories have disappeared, the amount of write-down shall be resumed and be reversed from the provision for the loss on decline in value of inventories that has been made. The reverse amount shall be included in the current profits and losses. The net realizable value refers to in the daily business activity the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories.

10. Long-term equity investments

(1) Recognition of investment costs

As for long-term equity investments acquired by enterprise merger, if the merger is under the same control, the share of the book value of the owner’s equity of the merged enterprise, on the date of merger, is regarded as the initial cost of the long-term equity investment, and if the merger is not under the same control, the sum of paid assets, occurred or assumed liabilities, and issued equity securities by the purchasing party are included into costs of enterprise merger. Intermediary expenses, such as the expenses for audit, assessment, and legal services, along with other relevant administration fee, shall be recorded into the profits and losses of the current period. Transaction costs arising from the issuance of equity securities or debt securities as merger consideration of the purchasing party shall be recorded into the initially recognized amount of equity securities or debt securities.

Other equity investments, except for the aforesaid long-term equity investments acquired by enterprises merger, are initially measured according to costs, which can, in consideration of different ways to obtain long-term equity investments, be respectively recognized by amount of cash payment actually paid by the Group, fair value of equity securities issued by the Group, value agreed upon investment contracts or investment agreements, fair value or original book value of surrendered assets in transactions of non-currency assets, and fair value of the long-term equity investment itself. Costs, taxes and other necessary expenses directly relevant to the acquirement of long-term equity investments are also recorded onto investment costs.

(2) Subsequent measurement and recognition method of gains and losses

Long-term equity investments, which have no joint control or significant influence over invested entities, and for which there is no offer in the active market and of which the fair value cannot be reliably measured, shall be accounted by cost method. Long-term equity investments with joint control or significant influence over invested entities shall be accounted by equity method. Long-term equity investments, which have no control, joint control or significant influence over invested entities, nevertheless of which the fair value can be reliably measured, shall be accounted as financial assets available for sale.

Besides, long-term equity investments that can implement control over invested entities are accounted by cost method in financial statements of the Company.

① Long-term equity investments accounted by cost method

With the employment of cost method, long-term equity investments shall be valuated on the basis of initial investment cost. Current investment income, except for actually paid amount during the investment, and cash dividends or profits that have been declared but not yet been granted included in the consideration, shall be ascertained in accordance with enjoyed cash dividends or profits declared and granted by invested entities.

② Long-term equity investments accounted by equity method

With the employment of equity method, the initial investment cost of long-term equity investment shall not be adjusted if the initial investment cost of long-term equity investment exceeds the share, which should be enjoyed, of fair value of identifiable net assets of invested entities. Cost of long-term equity investment shall be adjusted if the initial investment cost is less than the share, which should be enjoyed, of fair value of identifiable net assets of invested entities, and the balance between the two shall be recorded into current gains and losses.

With the employment of equity method, current gains and losses are the share, which should be enjoyed or shared, of net gains and losses realized by invested entities in the current year. When recognizing the share, which should be enjoyed, of net gains and losses of invested entities, the recognition shall be implemented on the basis of fair value of all identifiable assets of invested entities during the investment, and after the adjustment of net profit of invested entities during the account period with the accordance of accounting policies of the Group. As for gains and losses of unrealized internal transactions among associated enterprises, contractual enterprises and the Group, the part belonging to the Group after calculating by shareholding proportion shall be offset, and the investment gains and losses shall be thus recognized on that basis. Nevertheless, losses, which belong to impairment losses of transferred assets in line with provisions stipulated in the Accounting Standards for Enterprises No. 8 - Asset Impairment, of realized internal transactions between invested entities and the Group shall not be offset. As for other integrated incomes of invested entities, the book value of long-term equity investments shall be correspondently adjusted and recognized as other investment incomes, which shall thus be recorded into capital reserves.

When recognizing the incurred net losses, which should be shared, of invested entities, the limit shall be the down-to-zero amount of write-down of book value of long-term equity investments and other long-term equity essentially forming net investment over invested entities. Besides, if the Group has any liability of undertaking extra losses over invested entities, then the estimated debts shall be recognized in compliance with projected undertaken duties and recorded into gains and losses of investment at the current period. If the invested entity realized net profits in subsequent period, then the Group shall resume recognition of the shared amount of incomes after making up unrecognized shared amount of losses with the shared amount incomes.

③ Acquisition of minority equity

During the preparation of consolidated financial statements, capital reserves shall be adjusted in light of balance between long-term equity investments, which are newly increased because of the purchase of minority stakes, and the share of net assets of subsidiaries, which should be enjoyed and has been sustainably calculated since the acquisition date (or merger date) in accordance with newly increased shareholding proportion. Retained earning shall be adjusted if capital reserves are insufficient to dilute.

④ Disposal of long-term equity investments

In consolidated financial statements, under the circumstance of keeping control power, the parent company shall partially dispose long-term equity investments, and the balance between the disposed price and the enjoyed net assets of subsidiaries correspondent to disposed long-term equity investment shall be recorded into owners' equity. If the partial disposal of parent company over long-term equity investments of subsidiaries results in the loss of control over subsidiaries, in that circumstance, it shall be managed according to relevant accounting policies stated in the Preparation Method of Consolidated Financial Statements in Note IV. 4. (2).

As for disposal of long-term equity investment under other circumstances, the balance between book value of disposed equity and its actually acquired price shall be included into current gains and losses. As for long-term equity investments with the employment of equity method, other part of integrated incomes originally included in owners' equity shall be transferred to current gains and losses in accordance with correspondent proportion during the disposal. As for residual equity, it shall be recognized as long-term equity investments or other relevant financial assets according to the book value, and shall be subsequently measured according to accounting policies of the aforesaid long-term equity investments or financial assets. Residual equity concerning accounting method transferred from cost method to equity method shall be retrospectively restated and adjusted.

(3) Recognition basis for joint control and significant influence over invested entities

The term "control" means having the power to decide an enterprise's financial and operating policy and obtain benefits from its business activities. The term "joint control" refers to the control over an economic activity in accordance with the contracts and agreements, which does not exist unless the investing parties of the economic activity with one an assent on sharing the control power over the relevant important financial and operating decisions. The term "significant influences" refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not to control or do joint control together with other parties over the formulation of these policies. When ascertaining whether or not it is able to control or have significant influences on an invested entity, potential factors concerning the voting rights, such as investing enterprises, current convertible corporate bonds, and current executable warrants of invested entities etc. have been taken into full consideration.

(4) Impairment test method and withdrawal method of impairment provision

The Group shall check out whether there is any sign of impairment of long-term equity investments on each balance sheet date. Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated. If the recoverable amount of the asset is less than its book value, then asset impairment provision will be withdrawn in line with the balance and recorded into current gains and losses.

Once the impairment losses of long-term equity investments are recognized, they can't be reversed during the subsequent accounting period.

11. Investment real estates

Investment real estates of the Group include the right to use any land which has already been rented; the right to use any land which is held and prepared for transfer after appreciation; and the right to use any building which has already been rented. Investment real estates shall be recognized when it meets the following requirements simultaneously: (a) the Group can get rental income related to the investment real estates or incremental return, and (b) the cost of the investment real estates can be reliably measured. The initial measurement shall be made at its actual cost when purchase or building.

The Group shall make a follow-up measurement to the investment real estates by employing the cost pattern on the date of the balance sheet. An accrual depreciation or amortization shall be made for the investment real estates in the light of the accounting policies of fixed assets and intangible assets.

When the Group changed the purpose of the real estate, such as becomes to be used for its own, it shall convert the investment real estate to other assets.

For details of impairment test method and withdrawal method of impairment provision of investment real estates, please refer to Note IV. 16. Impairment of Non-current Non-financial Assets.

12. Fixed assets

(1) The term "fixed assets" refers to the tangible assets that simultaneously possess the features as follows: (a) They are held for the sake of producing commodities, rendering labor service, renting or business management; and (b) Their useful life is in excess of one fiscal year.

No fixed asset may be recognized unless it simultaneously meets the conditions as follows: (a) The economic benefits pertinent to the fixed asset are likely to flow into the enterprise; and (b) The cost of the fixed asset can be measured reliably.

The initial measurement of a fixed asset shall be made at its cost.

(2) Depreciation of fixed assets: The Group shall make depreciation for all its fixed assets. However, the fixed assets that have been fully depreciated but are still in use and the land that is separately measured and included shall be excluded. The term "depreciable amount" refers to the amount of deducting its expected net salvage value from the original price of the fixed asset to be depreciated. For a fixed asset, the provision for depreciation has been made; it shall deduct the accumulative amount of the provision for impairment of the depreciated fixed asset that has been already made shall be deducted. The "expected net salvage value" refers to the expected amount that an enterprise may obtain from the current disposal of a fixed asset after deducting the expected disposal expenses at the expiration of its expected useful life.

Depreciation of fixed assets shall be made by adopting the straight-line method. Categories, expected useful life, expected residual ratio and yearly depreciation:

Categories	Depreciation life	Annual depreciation	Expected residual ratio
House & buildings	24 years	4.00%	4%
Special equipment	9 years	10.89%	2%
General-purpose equipment	18 years	5.33%	4%
Transportation vehicles	9 years	10.89%	2%

Productive fixed assets has a large amount under the production environment with a certain chemical corrosion, as a result, the residual value is the smaller.

(3) For details of impairment test method and withdrawal method of impairment provision of fixed assets, please refer to Note. IV. 16. Impairment of Non-current Non-financial Assets.

13. Construction in progress

(1) Construction in progress of the Group includes self-operating project and construction contracted.

(2) Initial measurement of the construction in progress: Cost of the construction in progress shall be recognized at its actual expenses incurred. Where interest on borrowing related to the construction in progress occurred before the fixed assets reached estimated usable status, it shall be capitalized.

(3) Time point of construction in progress being carried forward as fixed assets shall be recognized at the time point that the construction reaches estimated usable status.

(4) For details of impairment test method and withdrawal method of impairment provision of construction in progress, please refer to Note IV. 16. Impairment of Non-current Non-financial Assets.

14. Borrowing costs

The borrowing costs shall include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings. When the borrowing costs can be directly attributable to the construction or production of assets eligible for capitalization, and the asset disbursements or the borrowing costs have already incurred, and the construction or production activities which are necessary to prepare the asset for its intended use or sale have already started, the capitalization of borrowing costs begins. When the asset eligible for capitalization under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs shall be ceased. Other borrowing costs shall be recognized as expenses when incurred.

The amount of interests shall be capitalized in light of the actual cost incurred of the specially borrowed loan at the current period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment. The to-be-capitalized amount shall be determined by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

During the period of capitalization, the exchange balance of specially borrowed loan on foreign currency shall be all capitalized, and the exchange balance of general borrowed loan on foreign currency shall be recorded into current gain and losses.

Assets eligible for capitalization have to go through construction or production activities for quit some time to prepare itself for its intended use or sale as fixed assets, investment real estate assets and inventories etc.

Where the construction or production of asset eligible for capitalization is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended till the construction or production of the asset restarts.

15. Intangible Assets

(1) Intangible Assets

The term "intangible asset" refers to the identifiable non-monetary assets possessed or controlled by enterprises which have no physical shape.

Intangible assets are initially measured according to its costs. Expenses relating to intangible assets shall be recorded into cost of intangible assets if relevant economic profit is much likely to flow into the Group and its cost can be reliably measured. Except for that, expenses of other items shall be recorded into current gains and losses when incurred.

The acquired land use right is generally accounted as intangible asset. Expense of land use right and construction cost of buildings, relating to voluntarily developed and constructed plants and other building, shall be accounted as intangible asset and fixed asset respectively. As for outsourced housing and buildings, the relevant amount shall be allotted between land use right and buildings. If the outsourced housing and buildings can’t be rationally allotted, they shall be disposed as fixed assets.

Intangible assets with limited service lives are averagely amortized by deducting the expected net salvage value and the withdrawn accumulative amount of provision for the impairment from the original value on a straight-line basis within their expected service lives beginning from the start of its usage. Intangible assets with uncertain service lives shall not be amortized.

At the end of the period, service lives and amortization method for intangible assets with limited service lives shall be checked. If there’s any change, the change shall be disposed as a change of the accounting estimates. Besides, services lives amortization method for intangible assets with uncertain service lives shall be checked. If there’s any evidence proving that the period for the intangible asset to bring economic profit for the enterprise is expected, then service life of the asset shall be estimated and amortized in accordance with amortization policy for intangible assets with limited service lives.

(2) R & D expenses

The expenditures for internal research and development projects of an enterprise shall be classified into research expenditures and development expenditures.

The research expenditures shall be recorded into the profit or loss for the current period.

The development expenditures shall be confirmed as intangible assets when they satisfy the following conditions simultaneously, and shall be recorded into profit or loss for the current period when they don’t satisfy the following conditions.

① It is feasible technically to finish intangible assets for use or sale;

② It is intended to finish and use or sell the intangible assets;

③ The usefulness of methods for intangible assets to generate economic benefits shall be proved, including being able to prove that there is a potential market for the products manufactured by applying the intangible assets or there is a potential market for the intangible assets itself or the intangible assets will be used internally;

④ It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources;

⑤ The development expenditures of the intangible assets can be reliably measured.

As for expenses that can’t be identified as research expenditures or development expenditures, the occurred R & D expenses shall be all included in current profits and losses.

(3) Impairment test method and withdrawal method of impairment provision of intangible assets

For details of impairment test method and withdrawal method of impairment provision of intangible assets, please refer to Note IV. 16 Impairment of Non-current Non-financial Assets.

16. Impairment of non-current non-financial assets

As for non-current non-financial assets such as fixed assets, construction in progress, intangible assets with limited service lives, investment real estates measured by the cost pattern, as well as long-term equity investments over subsidiaries, associated enterprises and contractual enterprises, the Group shall judge whether there is sign of impairment on the balance sheet date. Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated. Intangible assets of business reputation or with uncertain service lives, as well as intangible assets failing to reach the condition for use, shall be subject to impairment tests every year, no matter whether there is any sign of possible assets impairment.

When impairment test result shows that the recoverable amount of the asset is lower than its book value, impairment provision shall be withdrawn in accordance with the balance and recorded into impairment loss. The recoverable amount shall be determined on the basis of the higher one of the net amount of the fair value of the asset minus the disposal expenses and the current value of the expected future cash flow of the asset. Fair value of the asset shall be determined in light of the price as stipulated in the sales agreement in the fair transaction. Where there is no sales agreement but there is an active market of assets, the fair value shall be determined according to the price bidden by the buyer of the asset. Where there is no sales agreement and no active market of assets, the fair value shall be estimated in light of the best information available. The disposal expenses shall include the relevant legal expenses, relevant taxes, truckage as well as the direct expenses for bringing the assets into a marketable state. The current value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset. Impairment provision of the asset shall be calculated and determined on the basis of single item asset. Where it is difficult to do so, the enterprise shall determine the recoverable amount of the group assets on the basis of the asset group to which the asset belongs. The term "group assets” refers to a minimum combination of assets that can independently generate the flow-in cash.

When making an impairment test, the carrying value of the business reputation presented separately in financial statements shall be distributed to the asset group or combination of asset groups that can benefit from the synergy effect of enterprise merger. If the impairment test shows that the recoverable amount of the asset groups or combinations of asset groups containing business reputation is lower than their carrying value, then the correspondent impairment loss shall be recognized. The amount of the impairment loss shall first charge against the carrying value of the headquarter' assets and business reputation which are apportioned to the asset group or combination of asset groups, then charge it against the carrying value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the business reputation excluded.

Once the impairment losses of the aforesaid assets are recognized, they can’t be reversed during the subsequent accounting period.

17. Revenues

(1) Recognition standards for revenues from selling goods

Revenues from selling goods are recognized when the following conditions are met simultaneously: 1) the significant risks and rewards of ownership of the goods have been transferred to the buyer by the Group; 2) the Group retains neither continuous management right that usually keeps relation with the ownership nor effective control over the sold goods; 3) the relevant amount of revenues can be measured in a reliable way; 4) the relevant economic benefits may flow into the enterprise; and 5) the relevant costs incurred or to be incurred can be measured in a reliable way.

(2) Recognition standards of revenues from providing labor services

① Recognition standards of revenues from providing labor services on the condition that the Group can reliably estimate the outcome of a transaction concerning the labor services it provides. If the Group can, on the date of the balance sheet, reliably estimate the outcome of a transaction concerning the labor services it provides, it recognizes the revenues from providing services employing the percentage-of-completion method. And the outcome of a transaction concerning the providing of labor services can be measured in a reliable way when the following conditions are met simultaneously: 1) the amount of revenues can be measured in a reliable way; 2) the relevant economic benefits are likely to flow into the enterprise; 3) the schedule of completion under the transaction can be confirmed in a reliable way; and 4) the costs incurred or to be incurred in the transaction can be measured in a reliable way.

② Recognition standards of revenues from providing labor services on the condition that the Company can not reliably estimate the outcome of a transaction concerning the labor services it provides

If the Group can not, on the date of the balance sheet, measure the result of a transaction concerning the providing of labor services in a reliable way, it is to be conducted in accordance with the following circumstances, respectively:

A. If the cost of labor services incurred is expected to be fully compensated, the revenues from providing labor services are recognized in accordance with the amount received or expected to be received, and the cost of labor services incurred is carried forward;

B. If the cost of labor services incurred is expected to be partially compensated, the revenues from providing labor services are recognized in accordance with the compensated amount, and the cost of labor services incurred is carried forward;

C. If the cost of labor services incurred is expected to be fully uncompensated, the cost incurred is included in the current profits and losses, and no revenue from the providing of labor services may be recognized.

③ Method of determining the stage of completion when employing the percentage-of-completion method: The stage of completion is determined according to the proportion of the costs incurred against the estimated total costs.

18. Government Subsidies

A government subsidy means the monetary or non-monetary assets obtained free by the Group from the government, but excluding the capital invested by the government as the owner of the enterprise. Government subsidies consist of the government subsidies pertinent to assets and government subsidies pertinent to income.

If a government subsidy is a monetary asset, it shall be measured in the light of the received or receivable amount. If a government subsidy is a non-monetary asset, it shall be measured at its fair value. If its fair value cannot be obtained in a reliable way, it shall be measured at its nominal amount. The government subsidies measured at their nominal amounts shall be directly included in the current profits and losses.

The government subsidies pertinent to assets shall be recognized as deferred income, equally distributed within the useful lives of the relevant assets, and included in the current profits and losses. The government subsidies pertinent to incomes used for compensating the related future expenses or losses shall be recognized as deferred income and shall be included in the current profits and losses during the period when the relevant expenses are recognized; or those subsidies used for compensating the related expenses or losses shall be directly included in the current profits and losses.

If it is necessary to refund any government subsidy which has been recognized, it shall be treated respectively in accordance with the circumstances as follows: 1) If there is the deferred income concerned, the book balance of the deferred income shall be offset against, but the excessive part shall be included in the current profits and losses; and 2) If there is no deferred income concerned to the government subsidy, it shall be directly included in the current profits and losses.

19. Deferred income tax assets / Deferred income tax liabilities

(1) Current income tax

On the balance sheet date, the current income tax liabilities (or assets) incurred in the current period or prior periods shall be measured on the basis of the expected payable (refundable) amount of income tax, which is calculated according to the tax law. The amount of taxable income, on which the calculation of charges of current income tax is based, shall be calculated after correspondently adjusting the pre-tax accounting profit according to the tax law.

(2) Deferred income tax assets and deferred income tax liabilities

As for temporary difference between the difference, which is arising between the carrying value of some assets, along with some liability items, and their tax bases, and the difference, which is arising between the carrying value of items that can't be recognized as assets or liabilities, but of which the tax bases can be confirmed according to the tax law, the deferred income tax assets and deferred income tax liabilities shall be recognized by balance sheet liability method.

As for taxable temporary difference relating to initial recognition of business reputation, and initial recognition of assets or liabilities arising from transactions which neither belongs to enterprise merger, nor influences accounting profit or taxable income (or deductible loss), the relevant deferred income tax liabilities shall not be recognized. Besides, as for taxable temporary difference relating to investments over subsidiaries, associated enterprises, and joint ventures, if the Group is capable of controlling the time for reversing temporary difference, which is much likely not to be reversed in the expected future, then relevant deferred income tax liabilities shall not be recognized either. Other than the aforesaid exceptions, the Group shall recognize all deferred income tax liabilities arising from taxable temporary difference.

As for taxable temporary difference relating to initial recognition of assets or liabilities arising from transactions which neither belongs to enterprise merger, nor influences accounting profit or taxable income (or deductible loss), the relevant deferred income tax assets shall not be recognized. Besides, as for taxable temporary difference relating to investments over subsidiaries, associated enterprises, and joint ventures, if the Group is capable of controlling the time for reversing temporary difference, which is much likely not to be reversed in the expected future, then relevant deferred income tax assets shall not be recognized either. Other than the aforesaid exceptions, the Group shall recognize the deferred income tax asset arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference.

For any deductible loss or tax deduction that can be carried forward to the next year, the corresponding deferred income tax asset shall be determined to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

On the balance sheet date, the deferred income assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the relevant assets are expected to be recovered or the relevant liabilities are expected to be settled.

The carrying amount of deferred income tax assets shall be reviewed at each balance sheet date. If it is unlikely to obtain sufficient taxable income to offset against the benefit of the deferred income tax asset, the carrying amount of the deferred income tax assets shall be written down. Any such write-down should be subsequently reversed where it becomes probable that sufficient taxable income will be available.

(3) Income tax expenses

The income tax expenses include income tax of the current period and deferred income tax.

Except for other integrated incomes and the carrying value of adjusted business reputation of deferred income tax arising form enterprise merger, and except that the income tax in the current period and deferred income tax relating to the transactions or event directly recorded in the owner’s equities shall be recorded in other integrated incomes or owner’s equities, other income tax in the current period and deferred income tax expenses or incomes shall be recorded in current gains and losses.

(4) Offset of income tax

When holding the legal right of settlement with net amount, and attempting to settle with net amount, or simultaneously acquiring assets and paying off liabilities, the Group shall present the income tax assets and income tax liabilities in the current period with the net amounts after offset.

When the Group holds the legal right of settling income tax assets and income tax liabilities in the current period with net amount, and the income tax assets and income tax liabilities are relevant to income taxes imposed by the same taxation section for the same tax payer, yet the concerned tax payers intend to settle current income tax assets and liabilities with net amount or simultaneously acquire assets and pay off liabilities in every future term when significant deferred income tax assets and liabilities are reversed, the deferred income tax assets and deferred income tax liabilities of the Group shall be stated by the net amounts after offset.

20. Leases

The "finance lease" shall refer to a lease that has transferred in substance all the risks and rewards related to the ownership of an asset. Other leases except for finance leases are operating leases.

(1) Business of operating leases recorded by the Group as the lessee

The rent expenses from operating leases shall be recorded by the lessee in the relevant asset costs or the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs shall be recognized as the profits and losses of the current period. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(2) Business of operating leases recorded by the Group as the lessor

The rent incomes from operating leases shall be recognized as the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs of great amount shall be capitalized when incurred, and be recorded into current profits and losses in accordance with the same basis for recognition of rent incomes over the whole lease term. The initial direct costs of small amount shall be recorded into current profits and losses when incurred. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(3) Business of finance leases recorded by the Group as the lessee

On the lease beginning date, the Group shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. Besides, the initial direct costs directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. The balance through deducting unrecognized financing charges from the minimum lease payments shall be respectively stated in long-term liabilities and long-term liabilities due within 1 year.

Unrecognized financing charges shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing charges. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(4) Business of finance leases recorded by the Group as the lessor

On the beginning date of the lease term, the Group shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sum of the minimum lease receipts, the initial direct costs and the unguaranteed residual value and the sum of their present values shall be recognized as unrealized financing income. The balance through deducting unrealized financing incomes from the finance lease accounts receivable shall be respectively stated in long-term claims and long-term claims due within 1 year.

Unrecognized financing incomes shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing revenues. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

21. Employee compensation

During the accounting period of an employee's providing services to the Group, the employee compensation payable is recognized as liabilities.

The Group is involved in social security system established by government agencies for employees, mainly including basic endowment insurance, medical insurance, housing fund, and other social security systems. Correspondent expenses shall be recorded into related assets costs or current profits and losses when incurred.

As for the termination of labor relations before the expiry of labor contracts of employees, or proposals on compensations for the purpose of encouraging employees to voluntarily accept the cut-down, of the Group has drawn up the plan on the cancellation of labor relationship or proposed voluntary layoff proposal and is about to implement such items, and at the same time the Group is unable to unilaterally withdraw the plan on the cancellation of labor relationship or the layoff proposal, then the expected liabilities arising from compensations due to the cancellation of labor relationship shall be recognized and recorded into current profits and losses.

Internal retirement plan for employees shall be dealt with the same rules of the aforesaid retirement welfare events. From the service-termination date to the normal retirement date of an employee, salaries for internal retired staffs and social insurance charges to be paid by the Group shall be included into current profits and losses (retirement welfares) when such expenses are in compliance with recognition conditions of estimated debts.

22. Change in main accounting policies and accounting estimates

(1) Change in accounting policies

There isn't any event of change in main accounting policies of the Group in the current year.

(2) Change in accounting estimates

There isn't any event of change in main accounting estimates of the Group in the current year.

23. Correction of prior-period accounting errors

There isn't any event of correction of prior-period accounting errors of the Group in the current year.

24. Significant accounting judgments and estimates

Due to the internal uncertainty of operating activities, the Group needs to make judgments, estimates and assumptions for carrying amounts of statement items that can't be measured accurately during the process of applying accounting policies. Such judgments, estimates and assumptions are made on the basis of the past experience of Group's management staffs and on the consideration of other relevant factors. Such judgments, estimates and assumptions have effect on reporting amount of incomes, expense, assets and liabilities, as well as disclosure of contingent liabilities on the balance sheet date. However, the uncertainty of such estimates may results in major adjustments of carrying amounts of assets or liabilities that will be influenced in future.

The Group shall have a check on the aforesaid judgments, estimates and assumptions at fixed intervals on the basis of sustainable operation. As for the change in accounting estimates that only effects on the current period of the change, the affected amount thereof shall be recognized at current period of the change. As for accounting estimates that effects on both the current period of the change and future periods, the affected amount thereof shall be recognized at current period of the change and future periods.

On balance sheet date, major fields requiring judgments, estimates and assumptions on amounts of financial statement items by the Group are as follows:

(1) Classification of leases

In line with rules in Accounting Standards for Enterprises No. 21 – Leases, the Group classifies leases into operating leases and finance leases. Upon the classification, the management staffs need to make analysis and judgments on whether to essentially transfer all risks and remuneration relating to the ownership of leased-out assets to the lessee, or whether the Group has essentially undertaken all risks and remuneration relating to the ownership of leased-in assets.

(2) Withdrawal of bad debt provisions

The Group shall, in accordance with accounting policies of receivables, calculate bad debt provisions by adopting allowance method. Impairment of accounts receivable is based on the assessment of the recovery of accounts receivable. Identification of impairment of accounts receivable requires judgments and estimates by management staffs. The difference between actual outcomes and originally estimated outcomes, which will influence the carrying amount of accounts receivable and bad debt provisions thereof in the estimated period of the change shall be withdrawn or reversed.

(3) Inventory depreciation reserves

The Group shall calculate whichever is lower between the cost and realizable net value in light of inventory accounting policies. As for inventories of which the cost is higher than the realizable net value and inventories which are obsolete and unsalable, inventory depreciation reserves shall be withdrawn. Impairment of inventories to realizable net value is based on the assessment of the marketing of inventories and realizable net value thereof. Identification of inventory impairment requires well-established evidences by management staffs, as well as judgments and estimates based on consideration of the purpose of holding inventories and other factors such as events occurring after the date of balance sheet. The difference between actual outcomes and originally estimated outcomes, which will influence the carrying amount of inventories and inventory depreciation reserves in the estimated period of the change shall be withdrawn or reversed.

(4) Fair values of financial instruments

As for financial instruments not existing in active trading market, the Group shall determine their fair values by all kinds of assessment methods, which include model analysis of discounted cash flow and etc. During the assessment, the Group needs to assess for respects such as future cash flows, credit risks, market volatility, correlation, and choose appropriate discount rate. Such related assumptions have uncertainty, of which the change will effect on fair values of financial instruments.

(5)Impairment of financial assets available for sale

To a large extent, whether the impairment of financial assets available for sale is recognized or not relies on the judgments and assumptions of the management staffs.

In that way, the Group shall be certain about whether to recognize impairment losses of financial assets available for sale in the profit statement. During the process of making judgments and assumptions, the Group needs to evaluate how much the fair value of such investment is less than its cost, how long such investment will last, and the financial condition and short-term business outlook of the invested parties, which include industry status, technology transform, credit rating, default rate and risks from the opposite parties.

(6) Impairment provisions of non-financial non-current assets

The Group shall judge whether there is sign of impairment of non-current assets other than financial assets on balance sheet date. Intangible assets with uncertain service lives, besides being conducted with annual impairment test every year, have to accept impairment tests when there is sign of impairment. Other non-current assets except for financial assets have to accept impairment tests when there is sign indicating the carrying amount thereof is unrecoverable.

When the carrying amounts of the asset or group assets are higher than the recoverable amounts, namely whichever is higher between the net amount through deducting disposal charges from the fair value and the present value of the estimated future cash flow, impairment occurs.

The net amount of the fair value of an asset minus the disposal expenses shall be determined in light of the amount of the basis of the price as stipulated in the sales agreement or the observable market price in the fair transaction minus the incremental cost directly subject to the disposal of the asset.

When estimating present value of future cash flows, it is necessary to make significant judgments on characters of the asset or asset group, such as output, sales price, related operating costs, and discount used to calculate the present value. When estimating recoverable amount, the Group shall adopt all relevant materials that can be required, including estimates relating to output, sales price and relevant operating costs judged by rational and supportable assumptions.

The Group tests whether there is impairment of business reputation at least for every year, which requires itself to estimate the present value of the future cash flow of group assets or combination of group assets. When estimating the present value of the future cash flow, the Group needs to estimate the cash flow arising from future group assets or combination of group assets, and at the same time choose appropriate discount rate to determine the present value of the future cash flow.

(7) Depreciation and amortization

Upon consideration on the salvage value of investment real estates, fixed assets and intangible assets, the Group shall withdraw depreciation and amortization by straight-line method over their service lives. The Group checks on service lives at fixed intervals, so as to determine the amounts of depreciation expenses and amortization expenses at each period. Service lives are confirmed in accordance with the past experience on similar assets of the Group, along with renewed technology of expectation. If any significant change occurred to previous estimated, depreciation expenses and amortization expenses will be adjusted in future period.

(8) Deferred income tax assets

In a limit providing large possibility of offset losses from sufficient taxable profits, the Group shall recognize deferred income tax assets in line with all unused tax losses, which requires management staffs of the Group to estimate the time when future taxable profits occurs and the amount thereof by applying plenty of judgments and combining tax planning strategies, so as to determine the amount of the recognizable deferred income tax assets.

(9) Income taxes

There's certain uncertainty of disposal and calculation of taxes of partial transactions in normal operating activities. It is uncertain whether some pre-taxed items can set aside the approvals by tax authorities or not. If there are differences between the ultimate recognition outcomes and the originally estimated amounts of such tax issues, then such differences shall effect on the current income tax and deferred income tax during the ultimate recognition period.

(10) Internal welfare for retirement & care and supplementary welfare for retirement

Amounts of expenses and liabilities of internal welfare for retirement & care and supplementary welfare for retirement shall be determined in light of all kinds of assumption conditions, which include discount rate, average growth rate of hospitalization costs, growth rate of subsidy for early retired employees and retired employees, and other factors. Differences between actual outcomes and assumptions shall be recognized once such differences occur and recorded into expenses of the current year. Although the management staffs consider to have adopted rational assumptions, the actual empirical values and the changes in assumptions shall still effect on the balance of expense and liabilities of internal welfare for retirement & care and supplementary welfare for retirement of the Group.

(11) Estimated liabilities

The Group shall estimate for product quality guarantee, estimated contract losses, and penalties for delay in delivery, and withdraw correspondent provisions in light of contract clauses, current knowledge, and historical experience. When such contingent event has formed a current obligation, and fulfilling that current obligation may result in outflow of economic benefits of the Group, the Group shall recognize the contingent events as estimated debts in line with the best estimate of expenses needed for fulfillment of related current obligations. The recognition and measurement of estimated debts, to a large extent, relies on the judgments of the management staffs. While making judgments, the Group needs to assess factors such as risks, uncertainty, and time value of currency relevant to such contingent events.

Thereinto, the Group shall commit the estimated debts for after-sale quality maintenance provided to clients at its sales, maintenance, and transform of commodities. Data of current maintenance experience of the Group has been taken into consideration while estimating debts, but current maintenance experience may not be able to reflect future maintenance. Any increase or decrease of such provision shall possibly effect profits and losses of the coming years.

V. Tax

1. Income tax

Income tax shall be paid in light of the amount of taxable income and tax rate applicable to the current period. Income tax rate is 25%.

2. VAT

(1) VAT on sales for pesticides that are produced by the Company shall be measured at tax rate of 13%, such pesticides include orthene, paraquate, glyphosate, chlorofos, DDVP, triazophos and imidacloprid, ect.

(2) VAT on sales for chemical products of the Company shall be measured at tax rate of 17%, such chemical products include spermine, liquid caustic soda, liquefied chlorine gas and hydrochloric acid.

(3) VAT for export products shall be recorded in the light of the policy of "Tax exemption, tax deduction and tax rebate".

3. Business tax

Business tax shall be paid at 5% of turnover.

4. City maintenance construction tax

City maintenance construction tax shall be paid at 7% or 5% of circulating tax payable of the current period.

5. Extra charges for education

Extra charges for education shall be paid at 3% of circulating tax payable of the current period.

6. Housing property tax

Housing property tax shall be paid at 1.2% of balance after deducting 10-30% of original value of property in lump. If there is property rental, housing property tax shall be paid at 12% of property rental.

VI. Business combination and consolidated financial statements

1. The subsidiaries obtained by the Company through establishment or investment

Name of subsidiaries	Type	Registration Place	Business nature	Registered capital (RMB'0000)	Business scope	Actual amount of contribution at the period-end
Sanonda (Jingzhou) Pesticide & Chemical Co., Ltd.	Controlled subsidiary	10 Xihuan Road, Jingzhou District	Manufacturing	3,000	Production of pesticide and intermediate	26,500,000.00
Hubei Sanonda Foreign Trading Co., Ltd.	Controlled subsidiary	1 Beijing East Road, Jingzhou	Trading	1,000	Import and export of pesticide and intermediate	9,000,000.00
Hubei Sanonda Tianmen Agrochemical Co., Ltd.	Controlled subsidiary	179 Gudu Av., Zaoshi, Tianmen	Manufacturing	3,000	Production and sale of pesticide	18,445,023.32
Jingzhou Longhua Petrochemicals Co., Ltd.	Controlled subsidiary	95 Beijing East Road, Jingzhou	Manufacturing	500	Production and sale of chemical products	3,250,000.00
Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd.	Controlled subsidiary	93 Beijing East Road, Jingzhou	Manufacturing	600	R&D, production and sale of fine chemical products	8,864,700.30
Jingzhou Lingxiang Chemical Industry Co., Ltd.	Controlled subsidiary	Nongji Road, Yaowan Branch, Sha City Farm, Jingzhou Development Zone	Manufacturing	1,000	R&D and sale of chemical products	5,100,000.00

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Other essential investment	The proportion of holding shares	The proportion of voting rights	Included in consolidated statement	Minority interests	Deductible minority interests	Balance of parent company's equity after deducting the difference that loss of minority interests exceed equity obtained by minority shareholders
	88.33%	88.33%	Yes	375,826.80		
	90.00%	90.00%	Yes	2,059,518.11		
	98.50%	98.50%	Yes	532,093.02		
	65.00%	65.00%	Yes	5,275,682.43		
	95.10%	95.10%	Yes	738,817.71		
	51.00%	51.00%	Yes	2,915,139.15		

Note: the Company directly holds 51.00% equity to Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd., and indirectly holds another 44.10% equity by the Company's subsidiary Hubei Sanonda Foreign Trading Co., Ltd. As such, the Company's shareholding proportion over Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd. totaled to 95.10%. The Company directly holds 85.00% equity to Hubei Sanonda Tianmen Agrochemical Co., Ltd., and indirectly holds another 13.50% equity by the Company's subsidiary Hubei Sanonda Foreign Trading Co., Ltd. As such, the Company's shareholding proportion over Hubei Sanonda Tianmen Agrochemical Co., Ltd. totaled to 98.50%.

2. There is no subsidiary through business combination under the same control.

3. There is no subsidiary through business combination not under the same control.

4. There is no change in the consolidation scope in the current period,

VII. Notes to items of consolidated financial statements

As for following noted items (including notes to main items of financial statements of the Company), unless otherwise explained, "opening" refers to the date of 1 Jan. 2010, "closing" refers to the date of 31 Dec. 2010, "current period" refers to Y2010, and "last period" refers to Y2009.

1. Monetary capital

Item	Closing amount			Opening amount		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
Cash on hand:						
-RMB	5,669.55	1.0000	5,669.55	6,067.14	1.0000	6,067.14
Bank deposit:						
-RMB	192,777,970.57	1.0000	192,777,970.57	472,852,325.78	1.0000	472,852,325.78
-USD	1,655,601.25	6.6227	10,964,550.39	234,649.01	6.8282	1,602,230.37
Total			203,748,190.51			474,460,623.29

Note: ①With regard to monetary fund of the Company, there are no any payment mortgaged or frozen that there exists restrictions on the realization, or any payment deposited abroad or existing potential risk of collection.

②Closing monetary fund has decreased by 57.06% over the beginning of period, which is mainly because: I. In the year, the Company input a large sum in the thermoelectricity joint production project and rebuilding and expanding production lines. II. The increase of paid cash for loan repayment results in the decrease of monetary capital.

2. Notes receivable

(1) Listing by categories

Category	Closing amount	Opening amount
Bank acceptance bill	33,591,881.21	10,746,710.09
Total	33,591,881.21	10,746,710.09

Note: Closing balance of notes receivable amounted to RMB 33,591,881.21, up 212.58% than the opening balance, which is mainly due to the increase of the balance of bank bills resulted from more settlements with bills in the current year by the Group.

(2) No note is transferred to account receivable because drawer of the note fails to execute the contract or agreement.

(3) There is no pledged note receivable.

(4) Undue notes endorsed to other parties at the end of the period (top 5 items in amount)

Issuing entity	Date of issuance	Expiring date	Amount	Whether the recognition has been terminated	Remark
Fujian Funnong Agricultural Materials Group Co., Ltd.	2010.10.28	2011.04.28	3,000,000.00	Yes	
Henan Xuchang Sunlight Photoelectric Wire & Cable Co., Ltd.	2010.11.19	2011.05.19	1,000,000.00	Yes	
Xiamen Yongquan Sci-tech Dev. Co., Ltd	2010.10.29	2011.04.29	980,000.00	Yes	
Taizhou Galaxy Thread Webbing Co., Ltd.	2010.12.02	2011.06.02	600,000.00	Yes	
Shandong Weifang Rainbow Chemical Co., Ltd.	2010.11.04	2011.05.04	500,000.00	Yes	
Total			6,080,000.00		

3. Account receivable

(1) Breakdown by category

Category	Closing amount			
	Book balance		Provision for bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)
Significant single amounts with single provision for impairment	7,874,358.80	6.58	7,874,358.80	100.00
Provision for impairment according to account ages	101,738,019.62	85.00	15,920,775.51	15.65
Insignificant single amounts but with single provision fo impairment	10,080,639.55	8.42	10,080,639.55	100.00
Total	119,693,017.97	100.00	33,875,773.86	28.30

(Continued)

Category	Beginning amount			
	Book balance		Provision for bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)
Significant single amounts with single provision for impairment	7,874,358.80	7.91	7,874,358.80	100.00
Provision for impairment according to account ages	81,570,673.75	81.89	15,713,411.52	19.26
Insignificant single amounts but with single provision for impairment	10,163,469.11	10.20	10,163,469.11	100.00
Significant single amounts with single provision for impairment	99,608,501.66	100.00	33,751,239.43	33.88

(2) Classified according to age analysis

Items	Closing amount		Beginning amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	88,444,288.64	73.89	67,290,403.71	67.56
1-2 years	1,142,307.01	0.96	2,181,545.05	2.19
2-3 years	1,846,999.50	1.54	9,735,825.76	9.77
Over 3 years	28,259,422.82	23.61	20,400,727.14	20.48
Total	119,693,017.97	100.00	99,608,501.66	100.00

(3) Conditions of provision for bad debt

①Conditions of significant single amounts with single provision for impairment

Contents of receivable	Book amount	Provision for bad debt	Withdrawal proportion	Reason
Payment for goods received by Hubei Sanonda Foreign Trade Corporation from its foreign customer	7,874,358.80	7,874,358.80	100%	Client has already applied for bankrupt that it was estimated of minority opportunity to recollect. The whole amount was withdrawn.
Total	7,874,358.80	7,874,358.80		

② Classified according to age analysis

Aging	Closing amount			Beginning amount		
	Book balance		Provision for bad debt	Book balance		Provision for bad debt
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year (including 1 year)	88,254,740.44	86.75	4,412,737.02	67,315,252.16	82.53	3,365,762.61
1-2 years (including 2 years)	992,427.01	0.97	49,621.36	1,519,594.83	1.86	75,979.73
2-3 years (including 3 years)	915,940.47	0.90	45,797.02	300,522.01	0.37	15,026.10
3-4 years (including 4 years)	78,200.80	0.08	3,910.04	105,037.60	0.13	5,251.89

4-5 years (including 5 years)	92,632.45	0.09	4,631.62	83,027.33	0.10	4,151.37
Over 5 years	11,404,078.45	11.21	11,404,078.45	12,247,239.82	15.01	12,247,239.82
Total	101,738,019.62	100.00	15,920,775.51	81,570,673.75	100.00	15,713,411.52

③ Conditions of Insignificant single amounts but with significant credit risk

Contents of receivable	Book amount	Proportion(%)	Provision for bad debt	Reason
Payment for goods by Sanonda Stock from client sales	7,723,284.78	100.00	7,723,284.78	Estimated as irrecoverable
Payment for goods by Tianmen Agrochemical Co., Ltd. from client sales	2,277,471.57	100.00	2,277,471.57	Estimated as irrecoverable
Payment for goods by Longhua Petroleum	79,883.20	100.00	79,883.20	Estimated as irrecoverable
Total	10,080,639.55		10,080,639.55	

(4) No conditions of large accounts receivable actually offset in reporting period of the Group.
(5) No amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the accounts receivable.
(6) Top five units on accounts receivable
At the end of period, the top five accounts receivable totaled RMB 30,553,472.57, taking up 25.53% of accounts receivable, which including RMB 22,679,113.77 within one year, RMB 7,874,358.80 within three to four years.

(7) Termination recognition conditions for amounts receivable according to Accounting Standard for Business Enterprise No.23-Transfer of Financial Assets

Item	Amount stopping recognition	Gains/losses relevant to stopping recognition
Trade financing	65,296,828.82	674,384.34
Total	65,296,828.82	674,384.34

Note: In 2010, the Group transferred amounts receivable totaling RMB 65,296,828.82 (as of RMB 16,687,122.52 in 2009) to financial institutes without resource, relevant loss was as of RMB 674,384.34 (RMB 164,060.30 in 2009)

(8) Conditions of amounts receivable from other related parties
Pleas refer to Note Ⅸ, 6 “Account receivable from related parties”.

4. Other receivables
(1) Listing by categories

Category	Closing amount			
	Book balance		Provision for bad debt	
	Amount	Proportion (%)	Amount	Proportion (%)
Significant single amounts with single provision for impairment	22,611,283.24	54.26		
Provision for impairment according to account ages	18,828,045.85	45.18	6,701,268.62	35.59
Insignificant single amounts but with single provision for impairment	232,430.84	0.56	223,488.60	96.15

Total	41,671,759.93	100.00	6,924,757.22	16.62

(Continued)

Category	Opening amount			
	Book balance		Provision for bad debt	
	Amount	Proportion (%)	Amount	Proportion（%）
Significant single amounts with single provision for impairment	10,000,000.00	39.49		
Provision for impairment according to account ages	11,256,717.26	44.45	6,019,076.32	53.47
Insignificant single amounts but with single provision for impairment	4,065,628.38	16.06	82,600.00	2.03
Total	25,322,345.64	100.00	6,101,676.32	24.10

(2) Classified according to age analysis

Item	Closing amount		Opening amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	33,901,246.07	81.35	17,794,831.78	70.27
1-2 years	287,901.10	0.69	639,249.43	2.52
2-3 years	632,319.33	1.52	202,668.80	0.80
Over 3 years	6,850,293.43	16.44	6,685,595.63	26.41
Total	41,671,759.93	100.00	25,322,345.64	100.00

Note: Closing balance of other accounts receivable was of RMB 41,671,759.93, increased 64.57% compared to last period, mainly because an amount of RMB 11,150,000.00 was paid as guarantee money for property right. For details, please refer to Note ⅩⅢ, 1.

(3) Conditions of provision for bad debt

①Conditions of significant single amounts with single provision for impairment

Contents of other receivable	Book amount	Provision for bad debt	Withdrawal proportion	Reason
Refund on export tax amount receivable	11,461,283.24			Export refund on tax received from the state, there existed no bad debt
Chian Beijing Equity Exchange	11,150,000.00			Guarantee for equity exchange
Total	22,611,283.24			

② Classified according to age analysis

Aging	Closing amount			Beginning amount		
	Book balance		Provision for bad debt	Book balance		Provision for bad debt
	Amount	Proportion（%）		Amount	Proportion（%）	
Within 1 year (including 1 year)	11,279,485.59	59.91	563,974.28	3,811,803.40	33.86	190,590.17
1-2 years (including 2 years)	273,308.70	1.45	13,665.44	639,249.43	5.68	31,962.47
2-3 years (including 3 years)	596,250.43	3.17	29,812.53	202,668.80	1.80	10,133.44

Aging	Closing amount			Beginning amount		
	Book balance		Provision for bad debt	Book balance		Provision for bad debt
	Amount	Proportion (%)		Amount	Proportion (%)	
3-4 years (including 4 years)	171,273.50	0.91	8,563.67	503,750.46	4.48	25,187.53
4-5 years (including 5 years)	444,710.46	2.36	22,235.53	355,834.17	3.16	17,791.71
Over 5 years	6,063,017.17	32.20	6,063,017.17	5,743,411.00	51.02	5,743,411.00
Total	18,828,045.85	100.00	6,701,268.62	11,256,717.26	100.00	6,019,076.32

③ Conditions of Insignificant single amounts but with significant credit risk at period-end

Contents of other receivable	Book amount	Withdrawal proportion	Provision for bad debt	Reason
Individual loans etc.	223,488.60	100.00	223,488.60	Individual borrowings that was irrecoverable
Other	8,942.24			Reserve funds
Total	232,430.84	96.15	223,488.60	

(4) No amount due from shareholders who hold 5% or more of the voting rights of the Company or related parties is included in the accounts receivable.

(5) Top five units on other accounts receivable

Name of unit	Relation with the Company	Amount	Term of age	Proportion to total other accounts receivable (%)
China Beijing Equity Exchange Co., Ltd	Non-related party	11,150,000.00	Within 1 year	26.76
Allowance receivable-refund on export tax	Non-related party	11,461,283.24	Within 1 year	27.50
Shantou Biyue Plastic Co., Ltd.	Non-related party	3,125,000.00	Over 5 years	7.50
China Export & Credit Insurance Corporation Wuhan Sales and Management Apartment	Non-related party	655,865.65	Within 1 year	1.57
Jingzhou Administration of Work Safety	Non-related party	300,000.00	Over 5 years	0.72
Total		26,692,148.89		64.05

5. Prepayment

(1) Listing by ages

Aging	Closing amount		Beginning amount	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	17,301,107.47	99.67	23,021,156.12	95.85
1-2 years (including 2 years)	2,601.64	0.02	879,828.20	3.66
2-3 years (including 3 years)	735.40	0.00	37,259.19	0.16
Over 5 years	54,011.44	0.31	80,237.90	0.33
Total	17,358,455.95	100.00	24,018,481.41	100.00

(2) Conditions of top five units on prepayment

Name of units	Relation with the Company	Amount	Prepay time	Reason for fail to pay
Domestic supplier A	Non-related supplier	9,023,419.99	Within 1 year	Haven't receive cargos
Domestic supplier B	Non-related supplier	983,784.00	Within 1 year	Haven't to receive cargos

Domestic supplier C	Non-related supplier	831,888.00	Within 1 year	Haven't to receive cargos
Domestic supplier D	Non-related supplier	688,979.56	Within 1 year	Haven't to receive cargos
Domestic supplier E	Non-related supplier	651,550.50	Within 1 year	Haven't to receive cargos
Total		12,179,622.05		

(3) No amount due from shareholders who hold 5% or more of the voting rights of the Company or related parties is included in the accounts receivable.

6. Inventory

(1) Classification of inventory

Items	Closing balance		
	Book balance	Falling price reserve	Book value
Raw materials	33,410,374.25	852,862.56	32,557,511.69
Goods in process	42,685,208.68	534,769.47	42,150,439.21
Stock commodities	216,388,350.39	16,741,483.51	199,646,866.88
Low-value fugitive goods	38,988.10		38,988.10
Packaging material	1,783,088.22	225,246.08	1,557,842.14
Total	294,306,009.64	18,354,361.62	275,951,648.02

(Continued)

Items	Opening amount		
	Book balance	Falling price reserve	Book value
Raw materials	52,839,474.12	2,779,590.71	50,059,883.41
Goods in process	38,605,920.77		38,605,920.77
Stock commodities	118,457,217.78	13,238,476.96	105,218,740.82
Low-value fugitive goods	480,198.97		480,198.97
Packaging material	2,176,131.09	213,344.22	1,962,786.87
Goods delivered	2,435,132.39		2,435,132.39
Total	214,994,075.12	16,231,411.89	198,762,663.23

Note: Closing amount of inventory totaling RMB 294,306,009.64, increased 36.89% compared to beginning amount, mainly because the series product of Glyphosate received an unfavorable sales in the market that products kept long in stock.

(2) Changes in falling price reserve of inventory

Items	Opening amount	Provision in this period	Decrease in this period		Closing amount
			Recovery	Write-of(30	
Raw materials	2,779,590.71	472,124.18		2,398,852.33	852,862.56
Goods in process		534,769.47			534,769.47
Stock commodities	13,238,476.96	14,573,619.07		11,070,612.52	16,741,483.51
Packaging material	213,344.22	11,901.86			225,246.08
Total	16,231,411.89	15,592,414.58		13,469,464.85	18,354,361.62

(3) Particulars about falling price reserve and reason for recovery

Item	Reason for withdrawing inventory price falling provision	Reason for recovery of inventory price falling provision in this period	Proportion of recovery amount in this period in closing balance of the inventory item (%)
Raw materials	Market price of product falling led to net realizable lower than cost		
Goods in process	Market price of product falling led to net realizable lower than cost		
Stock commodities	Market price of product falling led to net realizable lower than cost		
Packaging material	Market price of product falling led to net realizable lower than cost		

Note: At the period-end, market price of Glyphosate fell, production of Imidacloprid ceased, which led to net realizable of stock commodities and relevant goods in progress lower than stock cost.

7. Long-term equity investment

(1) Classifications

Item	Opening balance	Increase this period	Decrease this period	Closing amount
Other long-term equity investment	23,369,400.00			23,369,400.00
Less: Impairment provision for long-term equity investment	11,991,017.37	550,000.00		12,541,017.37
Total	11,378,382.63	-550,000.00		10,828,382.63

(2) Specific items

Investee party	Accouting method	Investment Cost	Opening amount	Incrase /decrease	Closing amount	Voting shareholding ratio in investee entity	Explanation on disagreement between shareholding ratio and voting shareholding ratio i investee entity	Impairment reserve	Impairment reserve withdrawn ir this period	Cash bonus
Jingzhou Dali Industrial Co., Ltd	Cost method	1,674,600.00	1,674,600.00		1,674,600.00	33.70				
Jingzhou City Commercial Bank Co., Ltd	Cost method	20,000,000.00	20,000,000.00		20,000,000.00	5.15		11,991,017.37		
Hubei Shendian Mobile and Electric Motor Co., Ltd.	Cost method	564,000.00	564,000.00		564,000.00	0.60				
Guangxi Zhongding Holding Co., Ltd	Cost method	580,8 0.0	580,800.00		580,800.00	1.41				220,704.00
Wangda Industrial Holding Co., Ltd	Cost method	550,000.00	550,000.00		550,000.00	2.75			550,000.00	

Total	23,369,400.00		23,369,400.00		11,991,017.37	550,000.00	220,704.00

Note: The Company held 33.70% share of Jingzhou Dali Industrial Co., Ltd., while mainly due to the Company was not involved in the decisions making of its financial and operation policy no adopted equity method to account that was not able to control or control with the other company the policy decision making of invested units and made influence on its policies, the share proportion was not measured in equity method.

(3) The Group's ability to transfer funds to investee entities is not restricted.

(4) List of preparation of impairment reserve for long-term equity investment

Item	Opening amount	Increase this period	Decrease this period	Closing amount
Jingzhou City Commercial Bank Co., Ltd	11,991,017.37			11,991,017.37
Wangda Industrial Holding Co., Ltd		550,000.00		550,000.00
Total	11,991,017.37	550,000.00		12,541,017.37

Note: In January 1994, the Company invested RMB 550,000.00 into Hubei Wangda Industrial Holding Co., Ltd. which took up 2.75% of its shares. The said company experienced a significant loss due to bad management that it already tumbled into the verge of insolvency. Moreover, Hubei Wangda failed to conduct annual inspection in the administrative department of industry and commerce for incessant several year. According to consistency principle, the Company made impairment reserve for the total amount of RMB 550,000.00 with the approval of the Board of Directors of the Company.

8. Investment real estates

(1) Listed conditions of investment real estates

Item	Opening amount	Increase this period	Decrease this period	Closing amount
The investment real estates employing cost pattern in the follow-up measurement	5,116,012.50		240,400.00	4,875,612.50
Total	5,116,012.50		240,400.00	4,875,612.50

(2) Investment real estates employing cost method to measure

Items	Opening balance	Increase in 2010	Decrease in 2010	Closing amount
I. Original price	6,010,000.00			6,010,000.00
House and building	6,010,000.00			6,010,000.00
Land use right				
II. Accumulative depreciation and amortization	893,987.50	240,400.00		1,134,387.50
House and building	893,987.50	240,400.00		1,134,387.50
Land use right				
III. Accumulative provision for impairment of investment real estates				
House and building				
Land use right				
IV. Total book value of investment real estate	5,116,012.50			4,875,612.50
House and building	5,116,012.50			4,875,612.50
Land use right				

Note: Depreciation and amortization amount totaling RMB 240,400.00 during this period.

(3) Investment real estate of the Company is Hubei Building for hiring, located in Shenzhen with an area of 780 square meters. The relevant property certificate is a collative warrant, part of which belongs to the Company. Currently, the Company is unable to go through formalities for changes of the collective warrant.

9. Fixed assets

(1) Conditions of fixed assets

Items	Opening amount	Increase this period		Decrease this period	Closing amount
I. Total original price	1,197,194,042.69		43,089,718.90	27,778,144.82	1,212,505,616.77
Including: House and building	326,081,232.44		5,239,685.81	348,290.92	330,972,627.33
General equipment	61,755,551.19		2,240,201.98	2,529,941.82	61,465,811.35
Special equipment	797,101,617.87		34,271,177.56	23,978,124.78	807,394,670.65
Transportation vehicle	12,255,641.19		1,338,653.55	921,787.30	12,672,507.44
II. Accumulative depreciation		New Increase this period	Provision this period		
Total accumulative depreciation	413,040,690.70		97,032,888.62	20,714,422.13	489,359,157.19
Including: House and building	98,164,935.24		13,182,350.71	76,880.22	111,270,405.73
General equipment	43,265,538.10		4,751,396.79	2,128,215.06	45,888,719.83
Special equipment	265,157,090.66		77,929,931.21	18,013,098.80	325,073,923.07
Transportation vehicle	6,453,126.70		1,169,209.91	496,228.05	7,126,108.56
III. Total net book value	784,153,351.99				723,146,459.58
Including: House and building	227,916,297.20				219,702,221.60
General equipment	18,490,013.09				15,577,091.52
Special equipment	531,944,527.21				482,320,747.58
Transportation vehicle	5,802,514.49				5,546,398.88
IV. Total provision for impairment	5,492,258.90		13,169,926.14	2,557,685.58	16,104,499.46
Including: House and building	1,090,718.63				1,090,718.63
General equipment	82,995.62		51,696.92		134,692.54
Special equipment	4,318,544.65		13,118,229.22	2,557,685.58	14,879,088.29
Transportation vehicle					
V. Total book value	778,661,093.09				707,041,960.12
Including: House and building	226,825,578.57				218,611,502.97
General equipment	18,407,017.47				15,442,398.98
Special equipment	527,625,982.56				467,441,659.29
Transportation vehicle	5,802,514.49				5,546,398.88

Note: Depreciation amount in 2010 stands at RMB 97,032,888.62, and the original price of construction in progress transferred into fixed assets in 2009 stands at RMB 36,187,811.71, including RMB 15,648,681.09 carried over for Yuedi Steam Special line Project. The said project was set up to solve heating problem arising in industrial enterprises on east district of Shashi where was troubled by the close down of thermoelectricity plant of Shashi. In 2009, the temporary heating supply line, which the Company was entrusted to plan, design and construction, was finished and brought into operation. The ownership of the heating supply line belongs to the Company. In term of the line was a temporary line that its supply term was estimated to expired on 31 Dec. 2011. With the approval from the Board of Directors, the Company made provision for falling price to the said asset according to its tenure of use at an amount of RMB 11,962,547.32.

(2) There were no temporarily fixed assets of restricted ownership in the Group.

(3) There were no temporarily idle fixed assets in the Group.

(4) There were no fixed assets financed by financing lease in the Group.

(5) List of fixed assets leased out by operating lease

Name of leasing assets	Category	Original value	Accumulative depreciation	Net value
Office building in No. 185 Jiangjin Road	House and building	1,924,843.00	180,811.24	1,744,031.76

(6) There were no fixed assets hold-for-sale at the period-end of the Group.

10. Construction in progress

(1) List of construction in progress

Items	Closing amount			Opening amount		
	Book balance	Impairment provision	Original book value	Book balance	Impairment provision	Original book value
Cogeneration project	365,574,393.97		365,574,393.97	198,572,300.79		198,572,300.79
The second phase of Glyphosate	69,989,649.69		69,989,649.69	54,652,984.34		54,652,984.34
Project on remove of Jingzhou Nonghua new factory	17,948,728.59		17,948,728.59			
Acetaldehyde Project	11,441,082.16		11,441,082.16	5,795,073.05		5,795,073.05
Special line project of the whole Jingdi steam pipeline	5,783,950.06		5,783,950.06			
Project on Circuitry 110KV from old area to new area	5,351,675.37		5,351,675.37	5,119,536.88		5,119,536.88
Extension and reformation on acephate project	1,298,793.40		1,298,793.40			
Prepayment for contract project	924,589.74		924,589.74	5,881,264.88		5,881,264.88
Reformation of phosphorus trichloride 1#、8#	658,212.49		658,212.49			
Material transit of logistic department inYanka Port	319,518.27		319,518.27			
Trash cleaning and diverge project	188,767.54		188,767.54			
Private maintenance for No. 4 workshop of packaging plant	147,149.00		147,149.00			
Extension and Reformation project on T08	146,349.98		146,349.98	294,263.45		294,263.45
Technology Reformation Project of Triazophos	135,953.57		135,953.57			
Preheat system of electrolyte in electro-chemical work	82,715.19		82,715.19			
Extension and Reformation on MTSC Project	77,848.22		77,848.22			
Some factory expansion	31,566.64		31,566.64			
Yuedi Steam Special line Project				9,906,565.84		9,906,565.84
Reformation of compressed air				1,892,489.63		1,892,489.63
Improvement on synthesizing technology of trichlorphon				1,794,516.25		1,794,516.25
The 4th phase of extension and reformation on sewage disposal				1,326,225.30		1,326,225.30
Callback of mother liquor of fine trichlorphon				774,247.88		774,247.88
Extension of 8000t/a paraquat				545,236.46		545,236.46
New carbofuran project	517,604.98	517,604.98		517,604.98	517,604.98	

	Closing amount			Opening amount		
Reformation project of acid tank in acid-base station				472,029.19		472,029.19
Alinating isocarbophos				411,897.23		411,897.23
Methyl isocyanate and auxiliary manufacturing equipments for phosgene with 1000t/year				420,000.00		420,000.00
Total	480,618,548.86	517,604.98	480,100,943.88	288,376,236.15	517,604.98	287,858,631.17

Note: Closing balance totaling RMB 480,618,548.86, increased 66.66% compared to last year, mainly because the increase in investment on thermal power project, acetaldehyde project and remove of new plant project.

(2) Significant changes in construction in progress

Name of project	Budgeted amount	Opening balance	Increase in 2010	Transferring into fixed assets in 2010	Other decrease	Closing amount
Extension and reformation on acephate project	35,000,000.00		1,298,793.40			1,298,793.40
The second phase of Glyphosate	77,500,000.00	54,652,984.34	15,336,665.35			69,989,649.69
Project on Circuitry 110KV from old area to new area	4,190,000.00	5,119,536.88	232,138.49			5,351,675.37
Yuedi Steam Special line Project	20,000,000.00	9,906,565.84	5,742,115.25	15,648,681.09		-
Special line project of the whole Jingdi steam pipeline	29,500,000.00		5,783,950.06			5,783,950.06
Thermoelectricity joint supply project	360,000,000.00	198,572,300.79	167,002,093.18			365,574,393.97
Project on remove of Jingzhou Nonghua New Factory	56,300,000.00		17,948,728.59			17,948,728.59
Acetaldehyde Project	32,700,000.00	5,795,073.05	5,646,009.11			11,441,082.16
Other		14,329,775.25	9,446,130.14	15,168,954.63	5,376,675.14	3,230,275.62
Total		288,376,236.15	228,436,623.57	30,817,635.72	5,376,675.14	480,618,548.86

(Con.)

Name of project	Budgeted amount	Opening balance	Increase in 2010	Transferring into fixed assets in 2010	Other decrease	Closing amount
Extension and reformation on acephate project	47,555.53	47,555.53	5.76	83.09	83.09	Borrowings
The second phase of Glyphosate	5,085,838.51	3,665,535.28	5.47	90.31	90.31	Borrowings
Project on Circuitry 110KV from old area to new area	232,138.49	232,138.49	5.76	127.72	96.17	Borrowings
Yuedi Steam				78.24	100.00	Own fund

Special line Project						
Special line project of the whole Jingdi steam pipeline	176,044.01	176,044.01	5.76	19.61	19.61	Borrowings
Thermoelectricity joint supply	13,110,389.94	10,621,259.94	4.86	101.55	98.33	Borrowings
Project on remove of Jingzhou Nonghua New Factory				31.88	31.88	Own fund
Acetaldehyde Project				34.99	34.99	Own fund
Other	401,672.03	152,940.90				
Total	19,053,638.51	14,895,474.15				

Note: Total budget for Extension and reformation on acephate project was RMB 3,5 million and the total closing investment up to the end of 2009 amounted to RMB 27,783,583.57, which has been transferred into fixed assets. Closing balance totaled RMB 1,298,793.40 was expense newly occurred in this period.

(3) Impairment provision of construction in progress

Item	Beginning amount	Increase this period	Decrease this period	Closing amount	Reason for provision
New carbofuran project	517,604.98			517,604.98	
Total	517,604.98			517,604.98	

(4) Process of construction in progress

Item	Process	Note
Extension and reformation on acephate project	83.09	Partially completed and transfer into fixed assets
The second phase of Glyphosate	90.31	Main body completed and under debugging
Project on Circuitry 110KV from old area to new area	96.17	Main body completed and under debugging
Extension and reformation on acephate project	19.61	Under construction
Thermoelectricity joint supply project	98.33	Main body completed and under debugging
Project on remove of Jingzhou Nonghua new factory	31.88	Under construction
Acetaldehyde project	34.99	Under construction

11. Engineering material

Item	Opening amount	Increase this period	Decrease this period	Closing amount
Special equipment		164,468.82		164,468.82
Totals		164,468.82		164,468.82

12. Intangible assets

Conditions of intangible assets

Items	Opening amount	Increase this period	Decrease this period	Closing amount
I. Total original price	210,591,119.53			210,591,119.53
1. Land use right	201,017,419.53			201,017,419.53
2. Not-patent technology	9,573,700.00			9,573,700.00
II. Accumulated depletion	28,030,677.14	3,991,664.50		32,022,341.64
1. Land use right	24,254,143.97	3,383,664.46		27,637,808.43

Items	Opening amount	Increase this period	Decrease this period	Closing amount
2. Not-patent technology	3,776,533.17	608,000.04		4,384,533.21
III. Accumulated provision for impairment	32,072,093.53			32,072,093.53
1. Land use right	32,072,093.53			32,072,093.53
2. Not-patent technology				
IV. Total book value	150,488,348.86			146,496,684.36
1. Land use right	144,691,182.03			141,307,517.57
2. Not-patent technology	5,797,166.83			5,189,166.79

Note: ①Amortization amount was RMB 3,991,664.50.

② The land of provision for impairment located at Jingzhou Xuetangzhou, with an area of 400,000 m^2. It was provided by Jingzhou municipal government to offset discount amount in 2001 with an origin value of RMB 86,672,093.53. As an industrial land of fourth grade with a term of 50 years, the land has been idle since acquired. In 2007, the Company made provision for impairment totaled RMB 32,072,093.53 by taking measure and calculate of it. There were no sign of forward impairment in this period.

13. Deferred income assets

(1) Recognized Fixed deferred income tax assets

Items Provision for assets impairment	Closing amount		Opening amount	
	Deferred income assets	Deductible temporary differences and deductible deficit	Deferred income assets	Deductible temporary differences and deductible deficit
Deductible deficit	14,135,161.18	56,540,644.67	4,399,137.65	17,596,550.60
Changes in fair value of tradable financial assets			8,102,591.94	32,410,367.75
Total	14,135,161.18	56,540,644.67	12,501,729.59	50,006,918.35

(2) Statement on unfixed deferred income tax assets

Items	Closing amount	Beginning amount
Deductible temporary difference	12,541,071.37	32,680,993.43
Deductible deficit		207,192.60
Total	12,541,071.37	32,888,186.03

14. Provision for assets impairment

Items	Opening amount	Provision this period	Decrease this period		Closing amount
			Recovery	Write-off	
I. Provision for bad debts	41,181,746.69	706,322.63		6,480.09	41,881,589.23
II. Provision for falling price of inventory	16,231,411.89	15,592,414.58		13,469,464.85	18,354,361.62
III. Provision for impairment of available-for-sale financial assets					
IV. Provision for impairment of hold-to-maturity assets					
V. Provision for impairment of long-term equity investment	11,991,017.37	550,000.00			12,541,017.37
VI. Provision for impairment of investment real estates					

Items	Opening amount	Provision this period	Decrease this period		Closing amount
			Recovery	Write-off	
VII. Provision for impairment of fixed assets	5,492,258.90	13,169,926.14		2,557,685.58	16,104,499.46
VIII. Provision for impairment of engineering materials					
IX. Provision for impairment of construction in progress	517,604.98				517,604.98
X. Provision for impairment of production biological assets					
Including: Provision for impairment of mature production biological assets					
XI. Provision for impairment of oil-gas assets					
XII. Provision for impairment of intangible assets	32,072,093.53				32,072,093.53
XIII. Provision for impairment of goodwill					
XIV. Other					
Total	107,486,133.36	30,018,663.35		16,033,630.52	121,471,166.19

15. Assets with restricted ownership

Item	Closing amount	Reason for restriction
Subtotal of assets for guarantee	21,186,235.61	
Amount receivable	21,186,235.61	Negotiation with bank by accounts receivables
Total	21,186,235.61	

Note: Receivable accounts was trade financing loans from bank which was documentary L/C of opened by foreign customers, then Hubei Sanonda Foreign Trade Corporation, subsidiary of the Company, pledged right of collecting payment for goods to bank.

16. Short-term loans

(1) Category of loans

Type	Closing balance	Opening balance	Type	Closing balance
Secured borrowings		21,186,235.61		4,899,274.54
Mortgage loan				10,000,000.00
Guaranteed loan		10,000,000.00		25,000,000.00
Total		31,186,235.61		39,899,274.54

Note: Mortgage assets of secured borrowings this period was amounts receivable from Hubei Sanonda Foreign Trade Corporation.

(2) There is no matured short-term loan unredeemed in the Company.

17. Notes payable

Type	Closing amount	Beginning amount
Bank acceptance bill		5,000,000.00
Total		5,000,000.00

18. Accounts payable

(1) List of accounts payable

Items	Closing amount	Beginning amount
Within 1 year (including 1 year)	89,410,667.38	106,679,646.18
1-2 years (including 2 years)	5,149,447.91	4,908,266.24
2-3 years (including 3 years)	685,836.22	1,584,294.76
Over 3 years	3,860,472.13	3,769,145.82
Total	99,106,423.64	116,941,353.00

(2) During the reporting period, there were no amount due from shareholders who hold 5% or more of the voting rights of the Company or related parties was included in the accounts payable.
Please refer to No. Ⅸ, 6 Accounts payable from related parties for more details.
(3) Accounts payable of large amount with aging over 1 year.

Name of creditor	Amount	Reason for unpaid	Whether pay after report date or not
Bluestar (Beijing) Chemical Machinery Co., Ltd	1,752,200.00	Unsettlement because the project has not finished yet	No
Total	1,752,200.00		

(4) Foreign currency balance in amounts payable

Item	Closing balance			Beginning balance		
	Amount	Exchange rate	RMB(Converted)	Amount	Exchange rate	RMB(Converted)
US dollar	988,000.00	6.6227	6,543,227.60	2,068,000.00	6.8282	14,120,717.60
Total			6,543,227.60			14,120,717.60

19. Amount from customers

(1) List of amount from customers

Items	Closing amount	Beginning amount
Within 1 year (including 1 year)	60,704,890.21	28,029,729.38
1-2 years (including 2 years)	325,438.73	590,312.70
2-3 years (including 3 years)	153,415.75	227,914.84
Over 3 years	2,080,949.49	1,883,301.71
Total	63,264,694.18	30,731,258.63

Note: Closing balance of amount from customers was RMB 63,264,694.18, increased 105.86% compared to last period, mainly because there was an obvious recovery in pesticide market in the fourth quarter of 2010.
(2) There is amount that due from shareholders who hold 5% or more of the voting rights of the Company or parties is included in the advance from customers.
Please refer to Note Ⅸ, 6 "Accounts payable from related parties for more details".
(3) Up until 31 Dec. 2010, there was no large amount from customers due more than 1 year.

20. Payroll payable

Items	Increase in 2010	Closing balance	Opening balance	Payment in 2010
I. Wages, bonuses, allowance and subsidies for the employees	12,288,980.00	77,868,132.61	77,875,389.61	12,281,723.00
II. Welfare expenses for the employees		6,137,383.35	6,137,383.35	

Items	Increase in 2010	Closing balance	Opening balance	Payment in 2010
III. Social insurances	560,000.00	21,259,309.59	21,223,898.59	595,411.00
Of which: 1. Medical insurance		2,154,846.39	2,154,846.39	
2. Endowment insurance		16,496,807.40	16,461,396.40	35,411.00
3. Pension premium				
4. Unemployment insurance	560,000.00	1,474,605.56	1,474,605.56	560,000.00
5. Work injury insurance		905,163.60	905,163.60	
6. Maternity insurance		227,886.64	227,886.64	
IV. Housing accumulation fund	20,589.79	6,794,851.00	6,795,973.00	19,467.79
V. Labor union expenditure and employee education expenses	267,387.54	1,116,954.89	1,121,407.70	262,934.73
VI. Compensations for the cancellation of the labor relationship with the employees	4,094,941.12	1,203,289.28	5,298,230.40	
VII.		1,310,319.90	1,310,319.90	
VIII. Other	17,231,898.45	115,690,240.62	119,762,602.55	13,159,536.52

Note: Explanation for the arrangement of distribution time and amount for payroll payable: In payroll payable, year-end bonus of RMB 2,608,250.00, sales bonus of RMB 2,500,000.00 and year-end bonus of RMB 2,280,000.00 for middle-level cadres, bonus for scientific and technologic result of RMB 300,000.00, bonus for benchmark appraisal of RMB 1,550,753.00 will be distributed before Mar. 2011, and bonus of RMB 3,042,720.00 for senior managements will be distributed before Jun. 2011.

21. Tax and dues payable

Items	Closing amount	Beginning amount
VAT	-34,198,141.49	-21,328,286.43
Business tax	113,492.36	56,449.91
Tax on resources	25,416.85	28,952.66
Corporate income tax	11,710,100.11	13,722,355.69
Tax for municipal maintenance and construction	63,572.33	902,284.85
Housing property tax	1,034,934.05	301,624.41
Land holding tax	355,118.34	308,509.51
Individual income tax	159,709.15	33,491.38
Educational surcharge	36,443.76	517,318.91
Others	1,081,928.36	998,603.08
Total	-19,617,426.18	-4,458,696.03

Note: Closing balance of tax and dues payable was -19,617,426.18，decreased 339.98% compared to period-begin, mainly because expense on the aspect of engineering expense, purchasing equipment expense was increase which led to the increase in input tax for fixed assets.

22. Dividends payable

Name of units	Closing amount	Beginning amount	Reason for unpaid more than 1 year

State-owned Assets Supervision and Administration Commission of Qichun	224,463.30	224,463.30	The counter party failed to claim
Jingzhou Shashi Rural Credit Union	125,000.00	125,000.00	The counter party failed to claim
Total	349,463.30	349,463.30	

23. Other payables

(1) List of other payables

Items	Closing amount	Beginning amount
Within 1 year (including 1 year)	25,389,149.53	26,831,621.91
1-2 years (including 2 years)	1,159,395.68	4,426,377.44
2-3 years (including 3 years)	728,123.47	4,317,106.00
Over 3 years	5,038,320.36	3,838,729.61
Total	32,314,989.04	39,413,834.96

(2) No amount due from shareholders who hold 5% or more of the voting rights of the Company or related parties is included in the other payables.

(3) There is no large item in the other payables with aging over 1 year.

24. Non-current liabilities due within one year

(1) List of non-current liabilities due within one year

Item	Closing amount	Beginning amount
Long-term borrowings due within one year (NoteⅦ, 25)	200,000,000.00	95,000,000.00
Total	200,000,000.00	95,000,000.00

(2) Long-term borrowings due within one year

① List of non-current liabilities due within one year

Item	Closing amount	Beginning amount
Guaranteed loan	200,000,000.00	95,000,000.00
Total	200,000,000.00	95,000,000.00

②Top five long-term borrowings due within one year with the largest amount

Creditor	Beginning date of loan	Ending date of loan	Rate (%)	Currency	Closing amount	Beginning amount
Wuhan Branch of Industrial Bank	31 Jul. 2009	2011.07.31	3.51	RMB	85,000,000.00	
Wuhan Branch of Industrial Bank	30 Jun. 2009	2011.06.30	3.51	RMB	65,000,000.00	
Wuhan Branch of Industrial Bank	21 Apr. 2008	2013.04.21	5.76	RMB	30,000,000.00	10,000,000.00
Jingzhou Sanwan Sub-branch of China Construction Bank	9 Feb. 2009	2014.02.09	5.76	RMB	20,000,000.00	20,000,000.00
Jingzhou Sanwan Sub-branch of China Construction Bank	28 Jul. 2008	2013.08.28	5.76	RMB		20,000,000.00
Shenzhen Ping An Bank	10 Mar. 2009	2012.03.10	5.10	RMB		45,000,000.00

Total	200,000,000.00	95,000,000.00

Note: Within long-term borrowings of the Group, all of Wuhan Branch of Industrial Bank, Sanwan Sub-branch of China Construction Bank and Shenzhen Ping An Bank were long-term borrowings of installment. The expiration date of the above borrowings referred to the date that the last borrowing was repaid.

25. Long-term borrowings

(1) List of long-term

Item	Closing amount	Beginning amount
Guaranteed amount	659,560,000.00	674,560,000.00
Less: Long-term borrowings due within 1 year (Note Ⅶ, 24)	200,000,000.00	95,000,000.00
Total	459,560,000.00	579,560,000.00

(2) Top five long-term borrowings with the largest amount

Creditor	Beginning date of borrowing	Ending date of borrowing	Rate (%)	Currency	Closing amount		Beginning amount	
					Amount in foreign currency	Amount in RMB	Amount in foreign currency	Amount in RMB
China Construction Bank	2008.02.03	2013.02.02	5.76	RMB		97,560,000.00		97,560,000.00
Shenzhen Ping An Bank	2009.03.10	2012.03.10	4.86	RMB		92,000,000.00		
China Construction Bank	2008.08.29	2013.08.28	5.76	RMB		60,000,000.00		80,000,000.00
China Construction Bank	2009.02.09	2014.02.09	5.76	RMB		60,000,000.00		80,000,000.00
Industrial Bank	2008.04..21	2013.04.21	5.76	RMB		60,000,000.00		90,000,000.00
The Export and Import Bank of China	2009.07.31	2011.07.31	3.51	RMB				85,000,000.00
Total						369,560,000.00		432,560,000.00

26. Long-term payables

Item	Closing amount	Beginning amount
Environmental protection special loan from Jingzhou Bureau of Finance	6,990,000.00	6,990,000.00
Loan for glyphosate project	490,000.00	490,000.00
Borrowing for the cooperation project with Guangzhou Chemical Industry Research Institute	160,000.00	160,000.00
Borrowing for highly toxic pesticide production line change from Jingzhou Bureau of Finance		2,000,000.00
Treatment funds from Environmental Protection Bureau of Hubei Province		200,000.00
Total	7,640,000.00	9,840,000.00

27. Other non-current liabilities

Item	Content	Closing amount	Beginning amount
Deferred income related to assets	Appropriation for CTC consuming and eliminating project	2,219,677.27	2,219,677.27
Deferred income related to assets	Highly toxic pesticide production Line change and replacement project	6,213,333.33	6,990,000.00
Deferred income related to assets	Special fund for Management of source of pollution	1,955,555.56	
Total		10,388,566.16	9,209,677.27

28. Share capital

Items	Opening amount		Increase/decrease in 2010 (+/-)					Closing amount	
	Amount	Proportion (%)	New Shares Issued	Bonus shares from retained profit	Bonus shares from capital reserve	Others	Subtotal	Amount	Proportion (%)
I. Shares subject to trading moratorium	42,712.00	0.01				-42,712.00	-42,712.00		
Shares held by state-owned corporation									
Of which: Shares held by domestic corporation									
Shares held by domestic natural person	42,712.00	0.01				-42,712.00	-42,712.00		
Ⅱ. Shares not subject to trading moratorium									
1. Renminbi common shares	363,880,508.00	61.27				42,712.00	42,712.00	363,923,220.00	61.28
2. Domestically listed foreign shares	230,000,000.00	38.72						230,000,000.00	38.72
Total shares not subject to trading moratorium	593,880,508.00	99.99				42,712.00	42,712.00	593,923,220.00	100.00
Ⅲ. Total shares	593,923,220.00	100.00						593,923,220.00	100.00

29. Capital reserve

Item	Opening amount	Increase this period	Decrease this period	Closing amount
Capital premium (Premium on capital stock)	264,067,481.22			264,067,481.22
Other	7,523,997.13			7,523,997.13
Total	271,591,478.35			271,591,478.35

30. Special reserve

Items	Opening balance	Increase in 2010	Decrease in 2010	Closing amount
oduction fee	20,689,819.99	11,880,689.70	18,067,827.63	14,502,682.06
Total	20,689,819.99	11,880,689.70	18,067,827.63	14,502,682.06

31. Surplus reserve

Items	Opening amount	Increase in 2010	Decrease in 2010	Closing amount
Statutory surplus reserve	68,921,202.12	2,050,768.50		70,971,970.62
Discretionary surplus reserve	3,815,085.65			3,815,085.65
Total	72,736,287.77	2,050,768.50		74,787,056.27

Note: In accordance with Articles of Association of the Company, 10% of net profit of the Company would be withdrawn as statutory surplus public reserve. If the accumulated statutory surplus public reserve was over 50% of registered capital of the Company, then it would not be applicable to withdraw the statutory surplus reserve. After the withdrawal of statutory surplus reserve, the Company was able to withdraw discretionary surplus reserve. Discretionary surplus reserve could be used to offset loss in 2009 or make increase in share capital.

32. Retained profit

(1) List of retained profit

Items	Amount in 2010	Amount in 2009	Proportion of withdrawal or allotment
Retained profit as at 31 Dec. 2009	129,046,856.85	143,035,950.70	
Total number of adjustment for retained profit as at 1 Jan. 2010 ("+" shows increase, "-" show decrease)		-5,603,366.50	
Retained profit as at 1 Jan. 2009 after adjustment	129,046,856.85	137,432,584.20	
Add: Net profit attributable to owners of parent company in 2010	23,807,551.48	19,310,850.13	
Other increase		2,248,656.34	
Less: Appropriating statutory surplus reserve	2,050,768.50	145,660.85	Withdraw on the basis of 10% of net profit of parent company in current period
Appropriating discretionary surplus reserve			
Dividend of common share payable		29,799,572.97	
Dividend of common share transferred into share capital			
Retained profit as at 31 Dec. 2010	150,803,639.83	129,046,856.85	

(2) List of withdrawal of retained remained profit of subsidiaries during reporting period

Name of subsidiary	Withdrawal in 2010	Attributed to parent company
Hubei Sanonda Foreign Trade Corporation	327,280.91	294,552.82
Hubei Sanonda Tianmen Agrochemical Co., Ltd.	156,795.95	154,444.01
Jingzhou Longhua Petrochemicals Co., Ltd.	272,214.75	176,939.59
Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd.	243,375.76	231,450.35
Total	999,667.37	857,386.77

33. Operating revenue and operating cost

(1) Operating revenue and operating cost

Items	Amount in 2010	Amount in 2009
Main operation	1,483,836,001.15	1,592,182,957.99
Other	86,278,174.45	58,261,306.95
Total operating revenue	1,570,114,175.60	1,650,444,264.94
Main operation	1,255,146,475.59	1,360,104,198.70
Other	68,804,665.67	48,913,671.19
Total operating revenue	1,323,951,141.26	1,409,017,869.89

(2) Main operation (classified by industry)

Name of industry	Amount in 2010		Amount in 2009	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Manufacturing of chemical raw material and chemicals	1,483,836,001.15	1,255,146,475.59	1,592,182,957.99	1,360,104,198.70
Total	1,483,836,001.15	1,255,146,475.59	1,592,182,957.99	1,360,104,198.70

(3) Main operation (classified by products)

Name of products	Amount in 2010		Amount in 2009	
	Operating revenue	Operating cost	Operating revenue	Operating cost
New chemical materials and special chemicals	15,797,562.69	8,860,723.99	10,442,530.09	7,119,180.60
Petrochemicals and refining and chemical products	69,002,865.95	52,954,140.11	58,568,660.07	44,527,261.75
Basic (chlor-alkali) chemicals	14,518,695.59	16,331,801.27	3,936,065.29	4,171,592.24
Agrochemicals such as chemical fertilizer and pesticide	1,384,516,876.92	1,176,999,810.22	1,519,235,702.54	1,304,286,164.11
Total	1,483,836,001.15	1,255,146,475.59	1,592,182,957.99	1,360,104,198.70

(4) Main operation (classified by region)

Area	Amount in 2010		Amount in 2009	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Abroad	771,904,353.71	607,590,165.98	892,196,329.63	773,961,349.63
Home	711,931,647.44	647,556,309.61	699,986,628.36	586,142,849.07
Total =	1,483,836,001.15	1,255,146,475.59	1,592,182,957.99	1,360,104,198.70

(5) List of the top five clients of the Company on sales revenue

Term	Total of the top five clients on sales revenue	Proportion to corresponding operation revenue
2010	122,684,709.49	7.81
2009	113,060,741.25	6.85

34. Business taxes and surcharges

Items	Amount in 2010	Amount in 2009
Business tax	953,942.41	240,800.12
Tax for maintaining and building cities	438,437.40	2,135,852.22
Tax on resources	198,137.65	931,710.84
Educational surtax	508.68	1,445.88
Other	182,943.32	37,138.44
Total	1,773,969.46	3,346,947.50

Note: For all business tax and surcharges please refer to Note Ⅴ, Tax.

35. Sales cost

Items	Amount in 2010	Amount in 2009
Transport expenses	20,778,047.49	24,486,017.92
Export charge for products	19,087,862.15	11,116,288.65

Items	Amount in 2010	Amount in 2009
Paid for employees	4,456,745.66	5,487,429.57
Operating fund	3,077,602.61	8,125,760.70
Commissions for sales by proxy	2,579,387.70	-
Packaging cost	2,283,786.68	1,863,828.25
Advertising expense	1,937,881.83	2,942,149.22
Travel charge	1,681,147.10	1,744,607.36
Warehousing charges	930,052.40	2,547,822.52
Handling charges	924,220.81	449,277.53
Others	778,907.83	1,089,570.05
Total	58,515,642.26	59,852,751.77

36. Administrative expense

Items	Amount in 2010	Amount in 2009
Employee payroll	28,177,932.40	37,415,980.28
Security charges	4,662,286.51	464,787.70
Tax	4,635,763.00	5,418,858.79
Depreciation charge	4,513,748.04	6,060,858.93
Amortization of intangible assets	3,991,664.50	3,817,200.21
Insurance premium	3,341,374.61	3,667,621.71
Business reception charges	2,589,318.79	3,145,603.00
Office expenses	2,122,777.87	3,211,534.69
Car service expenses	1,247,408.37	1,294,757.15
Environmental production expenses	715,604.00	1,133,435.80
Others	27,663,770.00	33,744,334.44
Total	83,661,648.09	99,374,972.70

37. Financial expense

Items	Amount in 2010	Amount in 2009
Interest expense	54,069,217.21	50,355,298.79
Less: interest income	6,001,083.27	8,530,421.97
Less: capitalization of interest amount	14,895,474.15	6,458,275.32
Exchange loss	2,268,488.90	-112,426.02
Less: exchange gain	137,113.86	21,195.73
Guarantee fee for a loan	7,068,471.49	6,121,630.44
Other	4,850,000.00	4,660,000.00
Total	42,646,734.04	41,397,001.65

38. Loss on impairment

Items	Amount in 2010	Amount in 2009*
Loss on bad debt	706,322.63	3,595,225.39
Loss on falling price of inventory	15,592,414.58	22,092,178.33
Loss on impairment of long-term equity investment	550,000.00	
Loss on impairment of fixed assets	13,169,926.14	2,537,685.58
Total	30,018,663.35	28,225,089.30

39. Investment income

(1) List of investment income

Item	Amount in 2010	Amount in 2009
Income from long-term equity investment measured at cost method	220,704.00	398,000.00
Income from disposal of long-term equity investment		16,846,362.03
Income from transactional financial assets during the holding period		3,719,873.51
Total	220,704.00	20,964,235.54

Note: The amount of investment income in this period totaling RMB 220,704.00, decreased 98.95% when compared with last period, mainly because there is a large income totaling RMB 16,846,362.03 from the disposal of Zhengzhou Pesticide Co., Ltd. and other equities.

(2) There exists no major limitation to repatriation of investment income.

(3) Long-term equity investments measured at cost method are listed according to investees

Investee company	Amount in 2010	Amount in 2009
Guangxi Zhongding Holding Co., Ltd	220,704.00	
Jingzhou City Commercial Bank Co., Ltd		398,000.00
Total	220,704.00	398,000.00

40. Non-operating income

Items	Amount in 2010	Amount in 2009	Amount included into current non-recurring gains and losses
Subtotal of profit from disposal of non-current assets	847,432.60	4,045,240.89	847,432.60
Of which: Profit from disposal of fixed assets	847,432.60	4,045,240.89	847,432.60
Profit from debt restructuring		143,753.20	
Government grants (breakdown as next table）	4,781,047.84	1,489,959.41	4,781,047.84
Other	100,079.90	350,726.16	100,079.90
Total	5,728,560.34	6,029,679.66	5,728,560.34

Of which, breakdown of government grants as follows:

Items	Amount in 2010	Amount in 2009	Explanation

Fiscal discount for export	270,000.00	620,000.00	Naught
Grants for scientific and technological research	3,489,936.73		Production technology of paraquat improved
Grants for diaminobenzidine project		490,000.00	ECQF [2009] No. 77, Circular on Handing Down the Second Technology Innovation Fund for Technology-based SMEs (Small and Medium-sized Enterprises) for Y2009 from Provincial Financial Department
Appropriation for fenoxycarb project of Sanonda Zhengzhou Pesticide Co., Ltd.		379,959.41	YFGGJ [2005] No. 1560
Grants for the project of replacing acute toxic pesticide in farming	776,666.67		ECQF [2006] No. 170
Grants for sewage treatment	244,444.44		JHBKW [2009] No. 15
Total	4,781,047.84	1,489,959.41	

41. Non-operating expense

Items	Amount in 2010	Amount in 2009	Amount included into current non-recurring gains and losses
Subtotal of losses from disposal of non-current assets	2,150,220.72	4,003,075.49	2,150,220.72
Of which: Losses from disposal of fixed assets	2,150,220.72	4,003,075.49	2,150,220.72
Charitable donation expenditure	115,000.00		115,000.00
Other	1,349,758.42	1,429,399.49	1,349,758.42
Total	3,614,979.14	5,432,474.98	3,614,979.14

42. Income tax expense

Items	Amount in 2010	Amount in 2009
Current period income tax calculated by the Tax Law	9,944,913.74	6,459,714.49
Adjustment of deferred income tax	-1,633,431.59	5,139,439.53
Total	8,311,482.15	11,599,154.02

43. Basic earnings per share (EPS-basic)and diluted earnings per share (EPS-diluted)

EPS-basic refers to the current net profit attributable to common shareholders of the Company divided the weighted average amount of outstanding issued common shares. The amount of newly issued common shares is calculated from the date of consideration receivable in accordance with the detailed terms of the contract for issuing shares.

The numerator of EPS-diluted is the current net profit attributable to common shareholders of the Company, which is fixed by adjusting the following factors: (1) the interest of diluted potential common shares which is recognized as the expenses of current period; (2) the gains and costs incurred from transferring the diluted potential common shares; and (3) the influence on income tax from the above adjustment.

The denominator is the sum of the two items as follows: (1) the weighted average amount of common shares issued by the Parent Company in EPS-basic; (2) the increased weighted average amount of common shares assuming that diluted potential common shares were transferred to common shares.

While calculating the increased weighted average amount of common shares resulting from that diluted potential common shares were transferred to issued common shares, the diluted potential common shares issued in previous period are assumed to be transferred at current period; the diluted potential common shares issued in current period are assumed to be transferred on the issuing date.

(1) Breakdown of basic earnings per share (EPS-basic) and diluted earnings per share (EPS-diluted) in current and previous periods.

Profit as of reporting period	**Amount in 2010**		**Amount in 2009**	
	EPS-basic	EPS-diluted	EPS-basic	EPS-diluted
Net profits attributable to common shareholders of the Company	0.0401	0.0401	0.0325	0.0325
Net profits attributable to common shareholders of the Company after deducting non-recurring gains and losses	0.0435	0.0435	0.0014	0.0014

(2) Explanation on counting process of EPS-basic and EPS-diluted
During the reporting period, there was no diluted potential common shares in the Company so that EPS-diluted equaled to EPS-basic.
①When calculated the EPS-basic, the net profits attributable to common shareholders were as follows:

Items	**Amount in 2010**	**Amount in 2009**
Net profit attributable to common shareholders of the Company	23,807,551.48	19,310,850.13
Of which: Net profit attributable to continual operating	23,807,551.48	19,310,850.13
Net profit attributable to discontinued operating		
Net profit attributable to common shareholders of the Company after deducting non-recurring gains and losses	25,817,333.08	832,707.17
Of which: Net profit attributable to continual operating	25,817,333.08	832,707.17
Net profit attributable to discontinued operating		

②When calculated the EPS-basic, the denominator refers to the weighted average amount of outstanding issued common shares, and the ccounting process as follows:

Items	**Amount in 2010**	**Amount in 2009**

Items	Amount in 2010	Amount in 2009
Amount of outstanding issued common shares at period-begin	593,923,220.00	593,923,220.00
Add: weighted average amount of common shares issued at current period		
Deduct: weighted average amount of common shares repurchased at current period		
weighted average amount of outstanding issued common shares at period-end	593,923,220.00	593,923,220.00

44. Other comprehensive income

Items	Amount in 2010	Amount in 2009
Other		-142,625.99
Less: Effects of income tax generating from other recorded into other comprehensive income		
Net amount transferred into profit and loss in the current period that recorded into other comprehensive income in previous period		
Subtotal		-142,625.99
Total		-142,625.99

Note: The Company acquired equity of Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd. (the subsidiary of the Company) held by minority shareholders, from which the positive balance between the acquisition price and attributable share of net assets of the said subsidiary on the acquisition date shall be recognized as loss directly included into owner’s equity and recorded into other comprehensive income.

45. Notes to cash flow statement

(1) Other cash received related to operating activities

Items	Amount in 2010	Amount in 2009
Current money of Jingzhou Huaxiang Chemical Co., Ltd.	17,300,864.86	18,010,460.92
Interest income	6,001,083.27	
Payment for building steam conduit paid Guodian Changyuan Jingzhou Thermoelectric Co., Ltd.	3,880,000.00	10,000,000.00
Government grants	270,000.00	1,110,000.00
Current money of Zhengzhou New World Agrochemical Corporation		3,654,418.03
Current money of Kangping Company		1,347,500.00
Current money refunded by Sanonda Zhengzhou Pesticide Co., Ltd.		10,000,000.00
Collected repayment for payroll credit, insurance and reserve funds	7,792,896.41	7,793,315.01
Total	35,244,844.54	51,915,693.96

(2) Other cash paid related to operating activities

Items	Amount in 2010	Amount in 2009
Transport expenses	20,778,047.49	24,486,017.92
Export charges for products	19,087,862.15	11,116,288.65
Premiums for insurance	3,341,374.61	3,667,621.71
Operating fund	3,077,602.61	8,125,760.70

Items	Amount in 2010	Amount in 2009
Business entertainment	2,283,786.68	1,863,828.25
Packaging cost	2,589,318.79	3,145,603.00
Administrative expenses	2,122,777.87	3,211,534.69
Advertising expenses	1,937,881.83	2,942,149.22
Travel charge	1,681,147.10	1,744,607.36
Using fare for vehicle	1,247,408.37	1,294,757.15
Warehousing charges	930,052.40	2,547,822.52
Handling charges	924,220.81	449,277.53
Charges for environment protection	715,604.00	
Other	11,265,802.49	7,610,318.39
Total	71,982,887.20	72,205,587.09

(3) Other cash received related to investing activities

Items	Amount in 2010	Amount in 2009
Appropriation for CTC consumption elimination project received by Sanonda (Jingzhou) Pesticide & Chemicals Co., Ltd.		2,219,677.27
Total		2,219,677.27

(4) Other cash paid related to investing activities

Items	Amount in 2010	Amount in 2009
Security cost paid for property transition	11,150,000.00	
Total	11,150,000.00	

(5) Other cash paid related to financing activities

Items	Amount in 2010	Amount in 2009
Administration and commitment fees paid for bank loan		885,530.39
Security cost for loan paid to Sanonda Group Corporation	2,850,000.00	3,450,000.00
Security cost for loan paid to China National Agrochemical Corporation	2,000,000.00	1,210,000.00
Foreign exchange collateral securities without the right of recourse	674,384.34	
Total	5,524,384.34	5,545,530.39

46. Supplementary information to cash flow statement

(1) Reconciliation of net profit to net cash flows generated from operating activities

Items	Amount in 2010	Amount in 2009
1. Reconciliation of net profit to net cash flows generated from operating activities		
Net profit	23,569,180.19	19,191,918.33
Add: Provision for impairment of assets	30,018,663.35	28,225,089.30

Items	Amount in 2010	Amount in 2009
Depreciation of fixed assets, of oil-gas assets, of productive biological assets	97,273,288.62	90,294,608.47
Amortization of intangible assets	3,991,664.50	4,430,480.21
Amortization of long-term deferred expense		14,273.21
Losses on disposal of property, plant and equipment, intangible assets and other long-term assets (gains: negative)	1,302,788.12	-3,728,744.94
Loss on retirement of fixed assets (gains: negative)		3,686,579.54
Financial cost (gains: negative)	44,698,127.40	37,107,902.14
Investment loss (gains: negative)	-220,704.00	-20,964,235.54
Decrease in deferred income tax assets (gains: negative)	-1,633,431.59	5,139,439.53
Increase in deferred income tax liabilities (decrease: negative)		
Decrease in inventory (gains: negative)	-92,781,399.37	111,146,048.34
Decrease in accounts receivable from operating activities (gains: negative)	-40,521,460.93	-26,266,533.22
Increase in payables from operating activities (decrease: negative)	4,525,574.53	-60,013,037.75
Other		
Net cash flows generated from operating activities	70,222,290.82	188,263,787.62
II. Investing and financing activities that do not involving cash receipts and payment:		
Conversion of debt into capital		
Convertible bond due within one year		
Fixed assets financed by finance leases		
III. Net increase in cash and cash equivalents		
Closing balance of cash	203,748,190.51	474,460,623.29
Less: Opening balance of cash	474,460,623.29	562,832,319.76
Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase in cash and cash equivalents	-270,712,432.78	-88,371,696.47

(2) Cash and cash equivalents

Items	Closing balance	Opening balance
I. Cash	203,748,190.51	474,460,623.29
Including: 1. Cash on hand	5,669.55	6,067.14
2. Bank deposit on demand	203,742,520.96	474,454,556.15
II. Cash equivalent		
Including: Bond investment due in three months		
III. Closing balance of cash and cash equivalents	203,748,190.51	474,460,623.29

VIII. Accounting treatment of asset securitization business

There was no asset securitization business of the Group needed to be disclosed during the reporting period.

IX. Related party and Related Transaction

1. Information related to parent company of the Company

Name of parent company	Relationship	Type	Registration place	Legal representative	Business scope
Sanonda Group Corporation	Parent company	State-owned company	93 Beijing East Road, Jingzhou, Hubei Province	Li Zuorong	Production and operation of pesticide and chemicals products

(Continued)

Name of parent company	Registered capital	Proportion of share held by parent company against the Company	Proportion of voting rights owned by parent company against the Company	The ultimate controller of the Company	Organization code
Sanonda Group Corporation	240,661,000.00	20.15	20.15	China National Chemical Corporation	178987789

Note: The parent company directly held 20.02% of the Company's shares, and indirectly held 0.13% of the Company's shares by its subsidiary company Sanonda Advertising Co., Ltd., and the total shares of the Company held by the parent company was 20.15%

The ultimate controller of the Company is China National Chemical Corporation。

2. Information on subsidiaries of the Company

For details please refer to Note VI. 1 "Subsidiaries of the Company".

3. The Company had no co-operated or joint operated enterprise.

4. Information on other related parties

Name of other related parties	Relationship with the Company	Organization code
China National Agrochemical Corporation	The actual controller of the Company	100011399
China National Chemical Finance Co., Ltd.	Same final controller	10112351X
Jingzhou Fude Foods General Factory	Same parent company	178960447
Jingzhou Sanonda Advertising Co., Ltd.	Same parent company	706967790
Jingzhou Hengxiang Material Trade Co., Ltd.	Same parent company	790577401
Jingzhou Hongxiang Chemicals Co., Ltd.	Same parent company	798771196
Jingzhou Dali Industrial Co., Ltd.	Joint stock company	17897655-3
Hubei Jingzhou Huaxiang Chemical Co., Ltd.	Affiliated enterprise of parent company	73713373X
Guangxi Hechi Chemicals Co., Ltd	Same final controller	200887558
Jiangsu Anpon Electrochemical Co., Ltd.	Same final controller	139433337
Bluestar (Beijing) Chemical Machinery	Same final controller	795955432

Name of other related parties	Relationship with the Company	Organization code
Co., Ltd.		
Bluestar Environmental Engineering Co., Ltd.	Same final controller	71092737X

5. Transaction of related parties

(1) Transaction of related parties

①Related transaction of selling goods or providing labors services (Unit: RMB'0000)

Name of related party	Content	Principle of price	Occurred amount in 2010		Occurred amount in 2009	
			Amount	Percentage to the same transaction (%)	Amount	Percentage to the same transaction (%)
Sanonda Group Corporation	Sale of raw materials	Market price	231.05	0.16		
Jingzhou Hongxiang Chemicals Co., Ltd	Sale of goods	Market price	367.89	0.25		
Jingzhou Hengxiang Material Trade Co., Ltd.	Sale of chemical products	Market price	211.19	0.14	335.00	0.20
Jiangsu Anpon Electrochemical Co., Ltd	Sale of pesticide	Market price	226.35	0.15	126.00	0.08
Hubei Jingzhou Huaxiang Chemical Co., Ltd.	Sale of chemical products	Market price	2765.00	1.86	2,432.00	1.47
Jingzhou Fude Foods General Factory	Providing of labor services	Market price	15.99	0.59		

②Related transaction on purchasing goods or receiving labors services

Unit: RMB'0000

Name of related party	Content	Principle of price	Occurred amount in 2010		Occurred amount in 2009	
			Amount	Percentage to the same transaction (%)	Amount	Percentage to the same transaction (%)
Sanonda Group Corporation	Purchase of raw materials	Market price	648.00	0.73	7,136.00	10.46
Jingzhou Hengxiang Material Trade Co., Ltd.	Purchase of raw materials	Market price	1,283.31	1.45	1,874.00	2.75
Jingzhou Sanonda Advertising Co., Ltd.	Purchase of packaging	Market price	522.91	5.52	517.00	5.6
Bluestar (Beijing) Chemical Machinery Co., Ltd.	Purchase of equipments	Market price			26.00	0.27
Bluestar Environmental Engineering Co., Ltd.	Purchase of raw materials	Market price	2.69	0.00	2.00	0.00
China National Agrochemical Corporation	Purchase of raw materials	Market price	4,570.00	5.15	5,501.00	8.06
Jingzhou Dali Industrial Co., Ltd.	Purchase of packaging	Market price	380.00	4.01	691.00	7.48

(2) Related-party guarantee

Guarantor	Secured party	Amount secured	Start date	End date	Execution or not
Sanonda Group Corporation	The Company	90,000,000.00	2008.04.21	2015.04.21	No
Sanonda Group Corporation	The Company	50,000,000.00	2010.05.31	2017.05.31	No
Sanonda Group Corporation	The Company	10,000,000.00	2010.02.01	2011.01.31	No
Sanonda Group Corporation	The Company	20,000,000.00	2010.10.31	2013.10.31	No
China National Chemical Corporation	The Company	92,000,000.00	2009.04.28	2014.04.28	No
China National Chemical Corporation	The Company	80,000,000.00	2008.08.29	2015.08.28	No
China National Chemical Corporation	The Company	80,000,000.00	2009.02.10	2016.02.09	No
China National Chemical Corporation	The Company	97,560,000.00	2008.02.03	2015.02.02	No
China National Agrochemical Corporation	The Company	65,000,000.00	2009.06.30	2013.06.30	No
China National Agrochemical Corporation	The Company	85,000,000.00	2009.07.31	2013.07.31	No
The Company	Guangxi Hechi Chemicals Co., Ltd.	100,000,000.00	2008.01.12	2013.01.12	No
The Company	Hubei Sanonda Foreign Trading Co., Ltd.	100,000,000.00	2009.5.20	2011.5.19	No
The Company	Hubei Sanonda Foreign Trading Co., Ltd.	68,000,000.00	2009.12.10	2011.12.10	No
The Company	Hubei Sanonda Foreign Trading Co., Ltd.	30,000,000.00	2010.12.24	2011.12.23	No
The Company	Hubei Sanonda Foreign Trading Co., Ltd.	30,000,000.00	2010.12.10	2013.12.10	No

(3) Remuneration of key management staffs

During the reporting period, the basic salary, premium and various subsidies of key management staffs paid by the Company totaled as RMB 2.29 million.

(4) Other related transactions

Name of enterprise	Type	Content	Principle of pricing	Occurred amount in 2010		Occurred amount in 2009	
				Amount	Percentage to the same transaction(%)	Amount	Percentage to the same transaction(%)
Sanonda Group Corporation	Guarantee	Guarantee fee paid	Negotiated prices	2,850,000.00	58.76	3,450,000.00	74.03
China National Chemical Corporation	Guarantee	Guarantee fee paid	Negotiated prices	2,000,000.00	41.24	1,210,000.00	25.97

(5) Deposit in the related parties

Deposit in the related parties	Closing balance	Opening balance
Monetary fund deposited in China National Chemical Finance Co., Ltd.	59,057,252.37	
Interest from monetary fund deposited in China National Chemical Finance Co., Ltd.	642,262.77	

6. Accounts receivable and payable of related parties

(1) Accounts receivable and payable of related parties

Name of project	Closing balance		Opening balance	
	Book balance	Provision for bad debt	Book balance	Provision for bad debt
Accounts receivable:				
Jingzhou Fude Foods General Factory	159,927.55			
Total	159,927.55			

(2)Accounts payable and received in advance of related parties

Name of project	Closing balance	Opening balance
Accounts payable:		
Jingzhou Fude Foods General Factory		378,516.50
Jingzhou Dali Industrial Co., Ltd		1,165,733.44
Jingzhou Hengxiang Material Trade Co., Ltd		157,828.70
Bluestar (Beijing) Chemical Machinery Co., Ltd.	1,752,200.00	1,852,200.00
Bluestar Environmental Engineering Co., Ltd.	131,000.00	378,000.00
Total	1,883,200.00	3,932,278.64
Accounts received in advance		
Jingzhou Hengxiang Material Trade Co., Ltd		800.00
Total		800.00

X. Share-based payments

As to 31 Dec. 2010, there are no share-based payments of the group.

XI. Contingencies

1. Contingent events formed by external guarantee

Guarantor	Secured entities	Total guarantee amount (RMB ’0000)	Overdue amount	Guarantee way	Guarantee type	Current status of secured entities
I. Guarantee for subsidiaries						
The Company	Hubei Sanonda Foreign Trading Co., Ltd.	22,800.00		Joint liability guarantee	Guarantee for trade financing loan	Business-as-usual
II. Guarantee for other entities						
The Company	Guangxi Hechi Chemicals Co., Ltd	10,000.00		Joint liability guarantee	Guarantee for project borrowing	Business-as-usual

Note: The guarantee provided for Hubei Sanonda Foreign Trading Co., Ltd. (the holding subsidiary of the Company) is the maximum security of guaranty that the Company provides for its trade financing behaviors such as opening letter of credit and bill of exchange.

2. Other contingencies

The Company has no other contingencies that need to be disclosed.

XII. Commitment events

1. Significant commitment events

As to 31 Dec. 2010, the commitment on capital expenditures made by the group were as follows:

(1) In order to fully use the underground bitterns resources and reduce the consumption of production so as to meet the needs for the Ammonia from the Company's downstream product, the Company decided to establish the Project with the Producing Capacity of 200,000 tons of Ion film for Caustic Soda per Year by self-raised funds and bank loans as RMB 0.45 billion

(2) It was RMB 56.3 million for the budget of new factory construction of the Company's subsidiary Sanonda (Jingzhou) Pesticide & Chemicals Co., Ltd., and the expenditure was RMB 17. 9487 million as to the balance sheet date, occupying 31.88% of the overall budget, and the predicted remained expenditure was RMB 38.3513 million.

2. The Company has no significant commitment events in previous period.

XIII. Events after balance-sheet-date Events

1. Business combination after balance-sheet-date

(1) On 31 Dec. 2010, the Company, the Company's parent company Sanonda Group Corporation and parent company's subsidiary Jingzhou Hengxiang Material Trade Co., Ltd. signed an agreement on equity exchange of 98% shares of Jingzhou Hongxiang Chemicals Co., Ltd.. On 20 Jan. 2011, the three parties completed the equity exchange in China Beijing Equity Exchange Co., Ltd.. Name of underlying: 98% shares of Jingzhou Hongxiang Chemicals Co., Ltd, Item No. : G310BJ1004020, Assignor party: Sanonda Group Corporation, Transferring proportion: 82%; Assignor party: Jingzhou Hengxiang Material Trade Co., Ltd., Exchanging proportion: 16%; Assignee party: 98%, Concluded price: RMB 33,076,144.00, as to balance sheet date, the Company paid guaranteed deposit as RMB 9,922,700.00, and the payment of the total transferring price had been completed in Jan. 2011.

(2) On 31 Dec. 2010, the Company and the parent Company Sanonda Group Corporation signed an agreement on the equity exchange of 49% shares of the Company's subsidiary Jingzhou Lingxiang Chemical Industry Co., Ltd. held by Sanonda Group Corporation, which was finished in Beijing Equity Exchange Co., Ltd. on 20 Jan. 2011. Name of underlying: 49% shares of the Company's subsidiary Jingzhou Lingxiang Chemical Industry Co., Ltd.

Item No.: G310BJ1004027, Assignor party: Sanonda Group Corporation, Exchanging proportion: 49%, Conducted price: RMB 4,090,100.00, as to balance sheet date, the Company paid guaranteed deposit as RMB 1,227,300.00, and the payment of the total transferring price had been completed in Jan. 2011, and Jingzhou Lingxiang Chemical Industry Co., Ltd. became the Company's wholly-owned subsidiary.

2. Particulars on the profits distribution after the balance sheet date.

The 5th Session of the 6th Board of Directors was convened on 16 March 2011, which put forward the Preplan on Profits Distribution for Y2010, deciding neither to distribute the profits nor capitalize the capital reserves. And the preplan needed to be submitted to the Shareholders General Meeting for Y2010 for examination and approval.

XIV. Other significant events:

1. In order to further integrate the resources, thus improve the efficiency and reduce the administration cost, the Company decided to firstly finish the business

combination in "XIII 1." above, and then combine Jingzhou Lingxiang Chemical Industry Co., Ltd. by Jingzhou Hongxiang Chemical Co., Ltd., while the detailed proposal is still under discussion.

2. The Company's subsidiary Sanonda (Jingzhou) Pesticide & Chemicals Co., Ltd. decided to stop production and planned to remove to the new factory site, and the new factory is under the construction, which is predicted to primarily finished in Apr. 2011.

XV. Notes to the Financial Statement of the Company

1. Accounts receivable

(1) Breakdown by category

Category	Closing balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Significant single amounts and individually withdrawn the provision for bad debts	69,805,165.61	77.97		
Withdrawn the provision for bad debts by aging analysis	10,000,491.88	11.17	2,070,567.17	20.70
Insignificant single amounts and individually withdrawn the provision for bad debts	9,727,502.10	10.86	7,723,284.78	79.40
Total	89,533,159.59	100.00	9,793,851.95	10.94

(Continued)

Category	Opening balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Significant single amounts and individually withdrawn the provision for bad debts				
Withdrawn the provision for bad debts by aging combination	10,905,879.36	51.30	2,816,340.17	25.82
Insignificant single amounts and individually withdrawn the provision for bad debts	10,352,690.87	48.70	8,502,080.39	82.12
Total	21,258,570.23	100.00	11,318,420.56	53.24

(2) Aging analysis of account receivables

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	79,061,195.96	88.31	9,372,552.82	44.09
1-2 years	406,665.07	0.45	894,701.27	4.21
2-3 years	688,811.07	0.77	968,190.45	4.55
3-4 years	963,819.45	1.08	4,629,632.68	21.78
4-5 years	4,479,175.03	5.00	1,163,748.76	5.47
Over 5 years	3,933,493.01	4.39	4,229,744.25	19.90
Total	89,533,159.59	100.00	21,258,570.23	100.00

(3) Particulars on the provision of bad debts

①Account receivable with significant single amounts and being withdrawn the bad debts provision

Contents of receivables	Book balance	Provision for bad debts	Proportion (%)	Reason
Hubei Sanonda Foreign Trading Co., Ltd.	62,364,034.48			No withdrawing form the related
Jingzhou Lingxiang Chemical Industry Co., Ltd.	7,441,131.13			No withdrawing
Total	69,805,165.61			parties

②Account receivable being withdrawn the provision for bad debts by aging analysis

Aging	Closing balance			Opening balance		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year	7,356,954.74	73.56	367,847.74	7,521,942.34	68.98	376,097.12
1-2 years	301,523.36	3.02	15,076.17	894,701.27	8.20	44,735.06
2-3 years	688,811.07	6.89	34,440.55	98,660.80	0.90	4,933.04
Over 5 years	1,653,202.71	16.53	1,653,202.71	2,390,574.95	21.92	2,390,574.95
Total	10,000,491.88	100.00	2,070,567.17	10,905,879.36	100.00	2,816,340.17

③Account receivable with insignificant single amounts but being withdrawn the bad debts provision

Contents of receivables	Book balance	Proportion (%)	Provision for bad debts	Reason for provision
Domestic sales of the Company	7,723,284.78	100.00	7,723,284.78	Predicted to be uncovered
Hubei Sanonda Tianmen Agrochemical Co. Ltd.	1,339,561.95			No withdrawing from the related parties
Sanonda (Jingzhou) Pesticide & Chemicals Co., Ltd.	417,513.66			No withdrawing from the related parties
Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd.	247,141.71			No withdrawing from the related parties
Total	9,727,502.10		7,723,284.78	

(4) There were no account receivable with significant amount being offset during the reporting period.

(5) No amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the accounts receivable.

(6) Top five parties in account receivables as at period-end

Name of entity	Relation with the Company	Amount	Age	Proportion in total account receivables (%)
Hubei Sanonda Foreign Trading Co., Ltd.	Subsidiary	62,364,034.48	Within 1 year	69.65

Name of entity	Relation with the Company	Amount	Age	Proportion in total account receivables (%)
Jingzhou Lingxiang Chemical Industry Co., Ltd	Subsidiary	7,441,131.13	Within 1 year	8.31
Domestic customer A of the Company	Customer	2,325,810.30	Within 1 year	2.60
Domestic customer B of the Company	Customer	1,600,000.00	Within 1 year	1.79
Domestic customer C of the Company	Customer	1,473,343.97	4-5 years	1.65
Total		75,204,319.88		84.00

(7) Accounts receivables form related parties at the end of period

Name of entity	Relation with the	Amount	Proportion in total account receivables (%)
Hubei Sanonda Foreign Trading Co., Ltd.	Subsidiary	62,364,034.48	69.65
Jingzhou Lingxiang Chemical Industry Co., Ltd	Subsidiary	7,441,131.13	8.31
Hubei Sanonda Tianmen Agrochemical Co. Ltd.	Subsidiary	1,339,561.95	1.50
Sanonda (Jingzhou) Pesticide & Chemicals Co., Ltd.	Subsidiary	417,513.66	0.47
Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd.	Subsidiary	247,141.71	0.28
Total		71,809,382.93	80.21

2. Other account receivables

(1) Listing by categories

Category	Closing balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Significant single amounts and individually withdrawn the provision for bad debts	83,781,962.85	79.42		
Withdrawn the provision for bad debts by aging analysis	16,672,229.52	15.81	5,364,083.81	32.17
Insignificant single amounts and individually withdrawn the provision for bad debts	5,028,542.24	4.77	78,600.00	1.56
Total	105,482,734.61	100.00	5,442,683.81	5.16

(Continued)

Category	Opening balance			
	Book balance		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Significant single amounts and individually withdrawn the provision for bad debts	92,136,957.67	90.45		
Withdrawn the provision for bad debts by aging analysis	9,643,446.06	9.47	4,707,820.40	48.82
Insignificant single amounts and individually withdrawn the provision for bad debts	82,600.00	0.08	82,600.00	100.00
Total	101,863,003.73	100.00	4,790,420.40	4.70

(2) Classified according to aging analysis

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	67,299,061.63	63.80	81,193,542.10	79.71
1-2 years	17,630,039.45	16.71	4,146,951.78	4.07

Aging	Closing balance		Opening balance	
	Amount	Proportion（%）	Amount	Proportion（%）
2-3 years	4,144,421.68	3.93	9,272,630.00	9.10
3-4 years	9,246,600.00	8.77	2,366,133.61	2.32
4-5 years	2,315,093.61	2.19	434,434.17	0.43
Over 5 years	4,847,518.24	4.60	4,449,312.07	4.37
Total	105,482,734.61	100.00	101,863,003.73	100.00

(3) Particulars on the provision of bad debts

①Account receivable with significant single amounts and being withdrawn the bad debts provision

Contents of other accounts receivables	Book balance	Provision for bad debts	Proportion	Reason for provision
Sanonda (Jingzhou) Pesticide & Chemicals Co., Ltd.	42,631,962.85			No withdrawing from the related parties
Jingzhou Lingxiang Chemical Industry Co., Ltd.	30,000,000.00			No withdrawing from the related
China Beijing Equity Exchange Co., Ltd.	11,150,000.00			Guaranteed deposit for equity exchange
Total	83,781,962.85			

②Other account receivables being withdrawn the provision for bad debts by aging analysis

Aging	Closing balance			Opening balance		
	Book balance		Provision for bad debts	Book balance		Provision for bad debts
	Amount	Proportion（%）		Amount	Proportion（%）	
Within 1 year	10,560,850.14	63.34	528,042.50	3,688,547.28	38.25	183,228.99
1-2 years	268,308.70	1.61	13,415.44	489,528.00	5.08	24,476.40
2-3 years	486,997.90	2.92	24,349.90	172,630.00	1.79	8,631.50
3-4 years	146,600.00	0.88	7,330.00	487,594.54	5.06	24,379.73
4-5 years	440,554.54	2.64	22,027.73	355,834.17	3.69	17,791.71
Over 5 year	4,768,918.24	28.61	4,768,918.24	4,449,312.07	46.13	4,449,312.07
Total	16,672,229.52	100.00	5,364,083.81	9,643,446.06	100.00	4,707,820.40

③Other account receivable with insignificant single amounts and being withdrawn the bad debts provision

Contents of other accounts receivables	Book balance	Proportion(%)	Provision for bad debts	Reason for provision
Jingzhou Longhua Petrochemicals Co., Ltd.	4,945,000.00			No withdrawing from the related parties
Subtotal of personal loan	78,600.00	100.00	78,600.00	Predicted to be unrecovered
Chen Bin	4,942.24			As reserves
Total	5,028,542.24		78,600.00	

(4) Top five parties in other account receivables as at period-end

Name of entity	Relation with the Company	Amount	Aging	Proportion in total other receivables
Sanonda (Jingzhou) Pesticide & Chemicals Co., Ltd.	Subsidiary	42,631,962.85	1-5 years	40.42
Jingzhou Lingxiang Chemical Industry Co., Ltd	Subsidiary	30,000,000.00	1-2 years	28.44
China Beijing Equity Exchange Co., Ltd.	Non-related party	11,150,000.00	Within 1 year	10.57
Jingzhou Longhua Petrochemicals Co., Ltd.	Subsidiary	4,945,000.00	Within 1 year	4.69
Shantou Biyue Plastic Co., Ltd.	Non-related party	3,125,000.00	Over 5 years	2.96
Total		91,851,962.85		87.08

(5) Other account receivables from related parties at the end of period

Name of entity	Relation with the Company	Amount	Proportion in total other receivables
Sanonda (Jingzhou) Pesticide & Chemicals Co., Ltd.	Subsidiary	42,631,962.85	40.42
Jingzhou Lingxiang Chemical Industry Co., Ltd	Subsidiary	30,000,000.00	28.44
Jingzhou Longhua Petrochemicals Co., Ltd.	Subsidiary	4,945,000.00	4.69
Total		77,576,962.85	73.55

3. Long-term equity investment

(1) Classified according to categories

Items	Opening balance	Increase in current period	Decrease in current period	Closing balance
Investment on subsidiary	62,655,023.32			62,655,023.32
Other equity investment	23,369,400.00			23,369,400.00
Less: impairment provision for long-term equity investment	36,491,017.37	550,000.00		37,041,017.37
Total	49,533,405.95	-550,000.00		48,983,405.95

(2) Breakdown of long-term equity investment

Investee entities	Accounting method	Initial investment	Opening amount	Increase/ decrease	Closing amount
Sanonda (Jingzhou) Pesticide Chemical Industry Co., Ltd.	Cost method	24,500,000.00	26,500,000.00		26,500,000.00
Hubei Sanonda Tianmen Agrochemical Co., Ltd.	Cost method	7,245,023.32	15,745,023.32		15,745,023.32
Jingzhou Longhua Petrochemicals Co., Ltd.	Cost method	3,250,000.00	3,250,000.00		3,250,000.00
Hubei Sanonda Foreign Trading Co., Ltd.	Cost method	9,000,000.00	9,000,000.00		9,000,000.00
Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd.	Cost method	3,060,000.00	3,060,000.00		3,060,000.00
Jingzhou Lingxiang Chemical Industry Co., Ltd.	Cost method	5,100,000.00	5,100,000.00		5,100,000.00
Jingzhou Dali Industrial Co., Ltd	Cost method	1,674,600.00	1,674,600.00		1,674,600.00

Investee entities	Accounting method	Initial investment	Opening amount	Increase/ decrease	Closing amount
Jingzhou City Commercial Bank Co., Ltd	Cost method	20,000,000.00	20,000,000.00		20,000,000.00
Hubei Shendian Auto Motor Co., Ltd	Cost method	564,000.00	564,000.00		564,000.00
Guangxi Zhongding Holding Co., Ltd	Cost method	580,800.00	580,800.00		580,800.00
Wangda Industrial Holding Co., Ltd	Cost method	550,000.00	550,000.00		550,000.00
Total			86,024,423.32		86,024,423.32

（Continued）

Investee entities	Proportion of holding share in investee entity(%)	Proportion of voting rights in investee entity (%)	Explanation on disagreement between shareholding ratio and voting shareholding ratio in investee entity	Impairment reserve	Impairment reserve withdrawn in this period	Cash bonus in this period
Sanonda (Jingzhou) Pesticide Chemical Industry Co., Ltd.	88.33	88.33		24,500,000.00		
Hubei Sanonda Tianmen Agrochemical Co., Ltd.	98.50	98.50				
Jingzhou Longhua Petrochemicals Co., Ltd.	65.00	65.00				650,000.00
Hubei Sanonda Foreign Trading Co., Ltd.	90.00	90.00				
Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd.	95.10	95.10				2,625,227.72
Jingzhou Lingxiang Chemical Industry Co., Ltd.	51.00	51.00				
Jingzhou City Commercial Bank Co., Ltd	5.15	5.15		11,991,017.37		
Hubei Shendian Auto Motor Co., Ltd	0.60	0.60				
Guangxi Zhongding Holding Co., Ltd	1.41	1.41				220,704.00
Wangda Industrial Holding Co., Ltd	2.75	2.75			550,000.00	
Total				36,491,017.37	550,000.00	3,495,931.72

(3) Breakdown of impairment provision of long-term equity investment

Items	Opening balance	Increase in this period	Decrease in this period	Closing balance
Sanonda (Jingzhou) Pesticide Chemical Industry Co., Ltd.	24,500,000.00			24,500,000.00
Jingzhou City Commercial Bank Co., Ltd	11,991,017.37			11,991,017.37
Wangda Industrial Holding Co., Ltd		550,000.00		550,000.00
Total	36,491,017.37	550,000.00		37,041,017.37

4. Operating revenue and operating cost

(1) Operating revenue and operating cost

Items	Amount in 2010	Amount in 2009
Main operation revenue	1,195,487,894.65	1,166,646,615.03
Other operation revenue	69,045,004.53	37,066,238.97
Total of operation revenue	1,264,532,899.18	1,203,712,854.00
Main operating cost	1,026,638,890.92	1,006,070,748.27
Other operation costs	52,473,674.52	31,985,703.64
Total operation costs	1,079,112,565.44	1,038,056,451.91

(2) Main operation (classified by industries)

Name of industry	Amount in 2010		Amount in 2009	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Manufacturing of chemical raw material and chemicals	1,195,487,894.65	1,026,638,890.92	1,166,646,615.03	1,006,070,748.27
Total	1,195,487,894.65	1,026,638,890.92	1,166,646,615.03	1,006,070,748.27

(3) Main operation (classified by products)

Name of products	Amount in 2010		Amount in 2009	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Agrochemicals such as chemical fertilizer and pesticide	1,195,487,894.65	1,026,638,890.92	1,166,646,615.03	1,006,070,748.27
Total	1,195,487,894.65	1,026,638,890.92	1,166,646,615.03	1,006,070,748.27

(4) Main operation (classified by region)

Area	Amount in 2010		Amount in 2009	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Abroad	729,323,312.26	611,908,260.87	536,504,101.89	478,159,353.90
Home	466,164,582.39	414,730,630.05	630,142,513.14	527,911,394.37
Total	1,195,487,894.65	1,026,638,890.92	1,166,646,615.03	1,006,070,748.27

(5) Sales revenue from the top five clients of the Company

Period	Total of operating revenue from top five clients	Proportion of operating revenue of the related period（%）
2010	286,163,692.46	22.63
2009	290,160,490.92	24.11

5. Investment income

(1) Listed by categories

Resource of investment income	Amount in 2010	Amount in 2009
Income from long-term equity investment measured at cost method	3,495,931.72	11,277,198.11
Income from disposal of long-term equity investment		-11,118,619.32
Investment income form transaction financial assets at the holding period		3,719,873.51

Resource of investment income	Amount in 2010	Amount in 2009
Total	3,495,931.72	3,878,452.30

(2) Long-term equity investments measured at cost method are listed according to investees

Investee	Amount in 2010	Amount in 2009
Hubei Sanonda Foreign Trading Co., Ltd.		10,391,698.11
Jingzhou City Commercial Bank Co., Ltd.		398,000.00
Jingzhou Longhua Petrochemicals Co., Ltd.	650,000.00	487,500.00
Jingzhou Sanonda Aifusi Chemical Industry Co., Ltd.	2,625,227.72	
Guangxi Zhongding Holding Co., Ltd	220,704.00	
Total	3,495,931.72	11,277,198.11

6. Supplementary information to cash flow statement

Items	Amount in 2010	Amount in 2009
1. Reconciliation of net profit to net cash flows generated from operating activities		
Net profit	20,507,684.95	1,456,608.54
Add: Provision for impairment of assets	23,871,013.64	9,521,350.44
Depreciation of fixed assets, of oil-gas assets, of productive biological assets	89,843,190.65	84,874,856.30
Amortization of intangible assets	3,513,473.02	3,466,141.75
Losses on disposal of property, plant and equipment, intangible assets and other long-term assets (gains: negative)	965,496.36	
Loss on retirement of fixed assets (gains: negative)		3,500,599.84
Financial cost (gains: negative)	42,594,567.26	35,977,092.73
Investment loss (gains: negative)	-3,495,931.72	-3,878,452.30
Decrease in deferred income tax assets (gains: negative)	62,062.34	3,902,862.18
Decrease in inventory (gains: negative)	-87,481,813.91	78,911,736.12
Decrease in accounts receivable from operating activities (gains: negative)	-77,842,116.18	47,896,950.08
Increase in payables from operating activities (decrease: negative)	18,479,417.29	-70,811,081.82
Net cash flows generated from operating activities	31,017,043.70	194,818,663.86
II. Investing and financing activities that do not involving cash receipts and payment:		
Conversion of debt into capital		
Convertible bond due within one year		
Fixed assets financed by finance leases		
3. Net increase in cash and cash equivalents:		
Closing balance of cash	141,059,742.96	424,584,953.40
Less: Opening balance of cash	424,584,953.40	490,154,426.30
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Add: Net increase in cash and cash equivalents	-283,525,210.44	-65,569,472.90

XVI. Supplementary Information

1. Non-recurring gains and losses

Unit: RMB Yuan

Item	2010	2009
Gains and losses on disposal of non-current assets	-1,302,788.12	16,888,527.43
Return reduction and exemption of taxes surpassing approval or without official approval document		
Government grant recognized in current year, except for those acquired in the ordinary course of business or granted continuously in certain standard quota according to relevant national laws and regulations	4,781,047.84	1,489,959.41
Included in current profit and loss against the non-financial enterprises funds occupation fee collected		
Profits and losses arising from business combination when the combined cost is less than the recognized fair value of net assets of the combined company		
Profit and loss of non monetary asset exchange		
Gains and losses from consigned others to invest or manage the assets		
Allotted asset depreciation reserves incurred by occasional cause such as natural calamities		
Debt restructuring gains and losses		143,753.20
Enterprise restructured expenses such as employee relocating compensation and integration expense, etc.		
Profit and loss from transactions with obvious unfair transaction price		
Subsidiaries' Year-to-Date net profit/loss arising from business combination of entities controlled by a same company		
Profits and losses arising from other accrued liabilities which are not related to company's main business		
Gains and losses on change in fair value from tradable financial assets and tradable financial liabilities, as well as investment income from disposal of tradable financial assets and tradable financial liabilities and financial assets available for sales except for effective hedging related with normal businesses of the Company		3,719,873.51
Impairment reserves reversal of account receivables individually taking the impairment tests		
Gains and losses from outside entrusted loans		
Gains and losses from change in fair value of investment real estate adopting the fair value mode to do the follow-up measurement		
The influence of the once-off adjustment of current period gains and losses on the gains and losses in current period in accordance with the laws and rules of tax and accounting		
Fee and commission incomes arising from trusted customer asset management business		
Other non-operating income and expense other than above mentioned	-1,364,678.52	-1,078,673.33
Other non-recurring gains and losses in line with the definition of profit and loss items	-4,850,000.00	-4,660,000.00
Subtotal of non-recurring gains and losses	-2,736,418.80	16,503,440.22
Influence on income tax	-684,104.70	-2,987,885.29
Influence on minority interest（After tax）	-42,532.50	1,013,182.55
Attributable to owners of parent company	-2,009,781.60	18,478,142.96

Note: ① In the above table, “+” means gains or income, “-” means losses or expenditure.

② The recognition of the items of non-recurring gains and losses by the Company is in accordance with Explanatory Public Notice on Information Disclosure Of Companies Issuing Securities Publicly No. 1 — Non-recurring gains and losses" of CSRC (ZJH Public notice [2008] No. 43).

③ Other non-recurring gains and losses in line with the definition of profit and loss items are the securities cost paid to Sanonda Group Corporation and China National Agrochemical Corporation by the Company .

2. Return on equity (ROE) and earnings per share (EPS)

Profit as of reporting period	Weighted average ROE	EPS（Yuan/share）	
		EPS-basic	EPS-diluted
Net profit attributable to common shareholders of the Company	2.165%	0.0401	0.0401
Net profit attributable to common shareholders of the Company after deduction of non-recurring profit and loss	2.347%	0.0435	0.0435

Note: （1）Explanation on counting process

Item	2010
Net profit attributable to common shareholders of the Company	23,807,551.48
Net profit attributable to common shareholders of the Company after deduction of non-recurring profit and loss	25,817,333.08
Opening net assets attributable to common shareholders of the Company	1,087,987,662.96
Ending net assets attributable to common shareholders of the Company	1,105,608,076.51
Net assets attributable to common shareholders of the Company after weighted average	1,099,891,438.70

(2) Weighted average ROE =P0/（E0 + NP÷2）

Of which: P0 refers to Net profit attributable to common shareholders of the Company or net profit attributable to common shareholders of the Company after deducting non-recurring gains and losses; NP refers net profit attributable to common shareholders of the Company; E0 refers to opening net assets attributable to common shareholders of the Company; during the reporting period, there were no additional net assets attributable to common shareholders of the Company due to new share issuance or turning debts into shares, reduced net assets attributable to common shareholders of the Company due to buy-back business or cash dividends in the reporting period or change of increase/decrease of net assets due to other transaction events

(3) For detailed accounting process of EPS-basic and EPS-diluted please refer to Note VII. 43.

Section XI. Documents available for reference

(I) Financial statements with personal signatures and seals of legal representative and chief accountants;

(II) Original of the Auditor's Report with the seals of accounting firm and the signatures and seals of certified public accountants;

(III) In the reporting period, originals of all documents of the Company ever disclosed publicly in media designated by China Securities Regulatory Commission as well as the originals of all the public notices.

Chairman of the Board: Li Zuorong
Hubei Sanonda Co., Ltd
16 Mar. 2011