SINOPIPE HOLDINGS LIMITED
中国管业控股有限公司

Maintaining Focus

Annual Report 2010

CONTENTS

Established since 1994, we ("Sinopipe Holdings Limited and its subsidiaries") are primarily engaged in the design, manufacture, distribution and installation of a variety of plastic pipes and pipe fittings for use in various types of piping systems and networks in applications such as water supply, drainage and sewerage, telecommunication, power supply, water-saving irrigation and gas supply.

We have more than 10 production facilities located across the People's Republic of China (the "PRC") and we sell our products through a distribution network of subsidiaries, branch offices, independent provincial distributors and independent sub-distributors with smaller geographical coverage within the PRC. Our subsidiaries, branch offices, independent provincial distributors and independent sub-distributors have been assigned territorial boundaries within which to conduct sales and marketing of our products. This allows them to consistently serve the same group of customers so as to better understand their needs and changes in the market demand. Our revenue is primarily generated from sales of our products in the PRC domestic market.

OUR **PRODUCTS**

Our products are sold under our registered brand names of "Aton" and "SUN". Aton targets at the higher-end market while SUN caters to customers from the rural areas or projects with lower budget. We provide both on-site and off-site installation services for projects that require our expertise in installation when requested by our customers. In order to assure customer satisfaction of our products, we also provide after-sales services and technical support to our customers.

Water Supply Series

Transportation of clean water from its source to designated areas.

Drainage and Sewerage Series

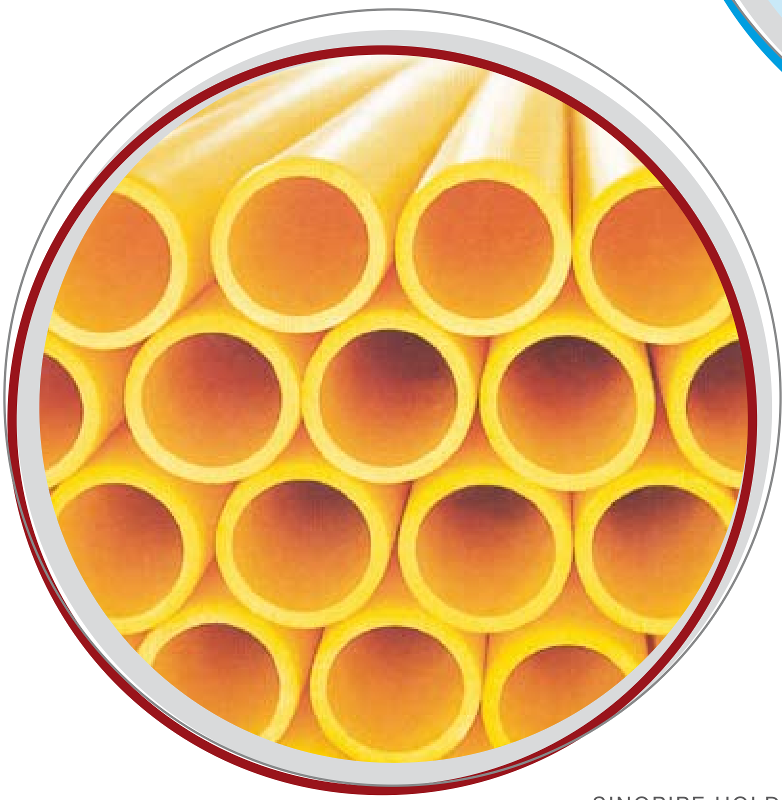
Drainage and disposal of sewerage, waste water and other kinds of effluents discharged from households, buildings and industrial areas.

Telecommunication and Electrical Series

Protective casing for telecommunication and electrical cables.

Water-Saving Irrigation Series

Filters, sprinklers, sprinkling irrigation and root irrigation systems for gardens, golf courses, farmlands, greenhouses, stadiums and nurseries.



Fuel Gas Series

Transportation of natural and fuel gas.

Kusnadi Lybianto
Non-Executive Chairman

Chen Li Hui
Chief Executive Officer

On behalf of the Board of Directors (the "Board"), we are pleased to present to you Sinopipe Holdings Limited's Annual Report for the financial year ended 31 December 2010 ("FY2010").

The Year in Review

FY2010 has been an eventful year for our Group. Underpinned by the People's Republic of China (the "PRC") government's macroeconomic efforts in boosting growth and consumption, coupled with our broad range of quality products, effective branding strategy and wide marketing reach, we delivered a creditable set of financial results for FY2010. Revenue rose by Rmb 131.2 million, or 16.5% year-on-year, from Rmb 795.1 million in FY2009 to Rmb 926.3 million in FY2010. This was largely attributable to strong demand for our water supply and drainage and sewerage products under our plastic pipe segment, which registered a revenue of Rmb 567.4 million and Rmb 253.7 million and accounted for 61.3% and 27.4% of revenue respectively.

Gross profit increased by 12.7% from Rmb 165.1 million in FY2009 to Rmb 186.1 million in FY2010 while gross profit margin saw a marginal decline from 20.8% in FY2009 to 20.1% in FY2010, mainly affected by higher raw material costs incurred.

Net profit jumped 70.1% from Rmb 38.9 million in FY2009 to Rmb 66.1 million in FY2010, mainly due to higher revenue coupled with reductions in impairment loss on doubtful trade receivables and write-off of defective inventories of Rmb 13.0 million and Rmb 3.1 million respectively in FY2010 as compared to FY2009.

Earnings per ordinary share increased by 70.2% from 17.26 Rmb cents for FY2009 to 29.37 Rmb cents for FY2010. Net asset value per ordinary share at the end of FY2010 was higher at 252.88 Rmb cents, up from 233.23 Rmb cents at the end of FY2009.

Going Forward

The plastic pipe industry in the PRC is expected to remain a fast growing sector, with the PRC government continuing to develop and upgrade its infrastructure facilities to keep pace with the country's robust economic growth. With the rise in living standards, there is increased demand for new or upgraded infrastructure to provide for clean water supply and sewerage systems to households, offices and industrial areas. Bearing this outlook in mind, we are cautiously optimistic that we are well-placed to tap on the growth opportunities ahead, in particular, in our core operating segments of water supply and drainage and sewerage. We will focus our resources on growing segments where we will be able to capitalise on our technical and project management capabilities and where we enjoy a competitive advantage over other industry players such as in build-transfer projects. In such projects, we undertake project management, supply and construction of an entire piping network and on completion, hand over the completed network to the relevant local government. Notwithstanding the above, we are mindful of rising operating costs in the current business environment and we will strive to proactively review and improve our purchasing and cost containment strategies so as to keep a tight rein on operating costs.

Product innovation and diversification as well as expansion in distribution network will continue to be our key drivers for growth. At Sinopipe, we pride ourselves on having a dedicated research and development team focused on advancing our business strategy by improving the quality of our products, widening the range of our product offerings and streamlining our manufacturing processes. This investment in research and development will ensure that we are able to continue to provide products tailored to meet the needs of our customers. To enhance our brands profile and, at the same time, reach out to more customers, we will participate in more nation-wide, regional and international exhibitions and trade shows. We will also actively seek to expand our sales and distribution network through the appointment of distributors in new markets in the PRC.

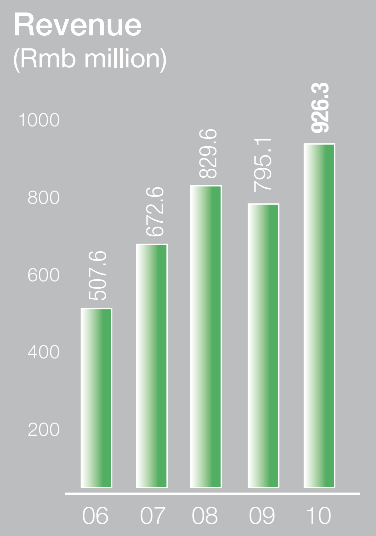
Where the opportunities arise, we will embark on and pursue both upstream and downstream initiatives that fit well with our strategy.

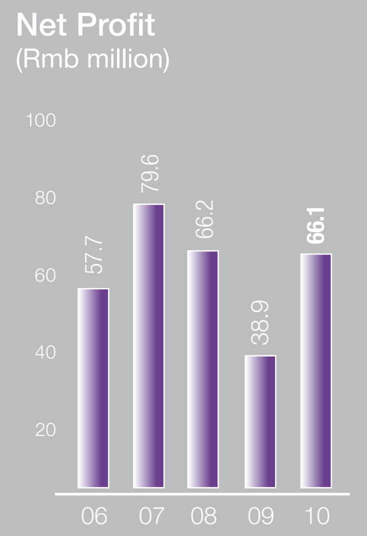
Acknowledgements

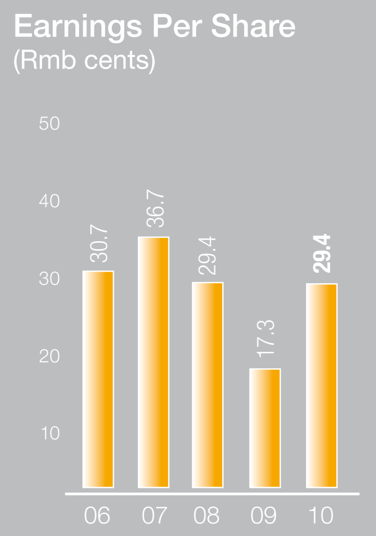
Last but not least, on behalf of the Board, we would like to take this opportunity to warmly welcome Ms Sim Siew Boi who has replaced Mr Ng Cher Yan as an Independent Director of the Company. To our management team and staff, we thank you for your dedication and contributions to the growth of our Group. Our gratitude also goes to our customers, suppliers, business partners and shareholders for their unwavering support and confidence through the years. We look forward to your continued support as we strive to take our Group to greater heights.

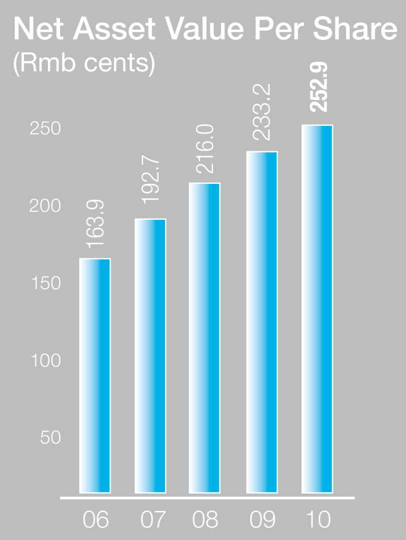
Kusnadi Lybianto
Non-Executive Chairman

Chen Li Hui
Chief Executive Officer

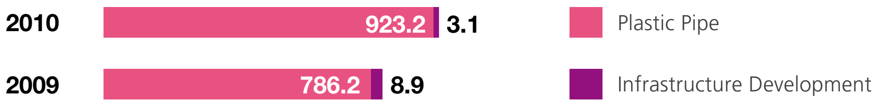

Revenue
(Rmb million)
1000
800
600
400
200
507.6
672.6
829.6
795.1
926.3
06
07
08
09
10


Net Profit
(Rmb million)
100
80
60
40
20
57.7
79.6
66.2
38.9
66.1
06
07
08
09
10

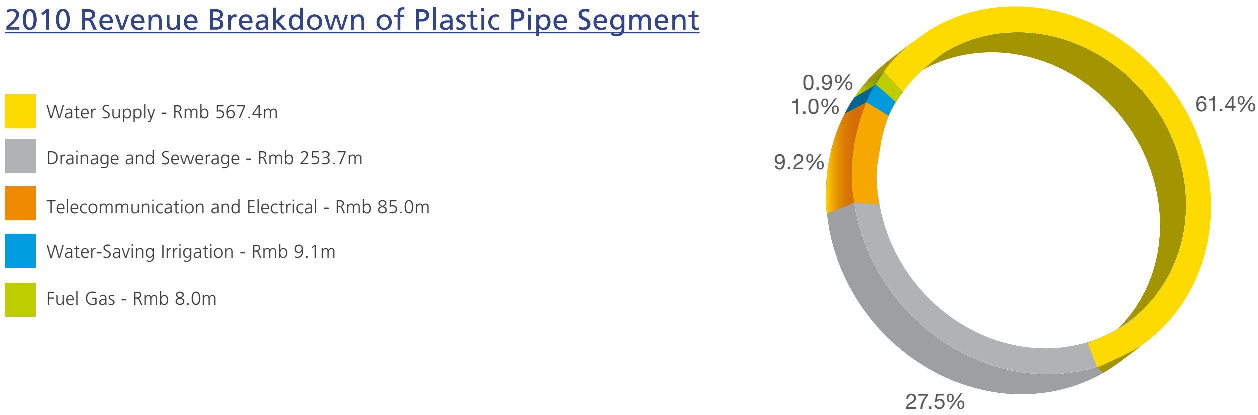

Earnings Per Share
(Rmb cents)
50
40
30
20
10
30.7
36.7
29.4
17.3
29.4
06
07
08
09
10


Net Asset Value Per Share
(Rmb cents)
250
200
150
100
50
163.9
192.7
216.0
233.2
252.9
06
07
08
09
10

Revenue *(Rmb million)*



2010 Revenue Breakdown of Plastic Pipe Segment



Profit and Loss

Revenue

Our revenue increased by Rmb 131.2 million from Rmb 795.1 million in FY2009 to Rmb 926.3 million in FY2010, representing a 16.5% growth year-on-year. This increase was as a result of higher revenue of Rmb 137.0 million generated from our plastic pipe segment which was due to higher revenue registered by all operating segments, namely the water supply, drainage and sewerage, telecommunication and electrical, water-saving irrigation and fuel gas operating segments and partially offset by lower revenue of Rmb 5.8 million generated from our infrastructure development segment as the project under the segment had been halted pending the outcome of the negotiation on the use of plastic pipes instead of concrete pipes for the project.

Gross profit and gross profit margin

Our gross profit increased by Rmb 21.0 million or 12.7% from Rmb 165.1 million in FY2009 to Rmb 186.1 million in FY2010. This increase was brought about by higher revenue registered and partially offset by a decline in gross profit margin. Gross profit margin was lower at 20.1% in FY2010, as compared to 20.8% in FY2009 mainly due to higher raw material costs incurred.

Other operating income

Our other operating income decreased by Rmb 1.1 million or 14.5% from Rmb 7.3 million in FY2009 to Rmb 6.2 million in FY2010. This decrease was mainly due to an absence of sub-contract manufacturing income, negative goodwill arising from the acquisition of non-controlling interest in a subsidiary and other income in FY2010 which amounted to Rmb 1.5 million, Rmb 0.5 million and Rmb 0.2 million respectively in FY2009. The above decreases were partially offset by higher government grants and subsidies received of Rmb 0.7 million, a higher amount of compensation income received of Rmb 0.2 million and a higher gain on sale of raw materials and by-products of Rmb 0.2 million.

Selling and distribution expenses

Our selling and distribution expenses decreased by Rmb 1.4 million or 3.6% from Rmb 40.1 million in FY2009 to Rmb 38.7 million in FY2010. This decrease was mainly due to lower expenses of Rmb 6.2 million in items such as warranty expenses, commission expenses and installation expenses and partially offset by higher expenses of Rmb 4.8 million in items such as payroll expenses, travelling expenses, entertainment expenses, freight and transportation expenses and advertising and promotion expenses.

Administrative expenses

Our administrative expenses increased by Rmb 1.3 million or 3.6% from Rmb 36.4 million in FY2009 to Rmb 37.7 million in FY2010. This increase was mainly due to higher expenses such as payroll expenses, depreciation expenses, lease expenses and entertainment expenses which were partially offset by a foreign exchange gain of Rmb 1.9 million recorded for FY2010 as compared to a foreign exchange loss of Rmb 0.4 million incurred for FY2009 (which arose mainly from the movement of Renminbi against USD for the USD bank loan taken out in March 2008) and lower expenses such as other staff costs and travelling expenses.

Other operating expenses

Our other operating expenses decreased by Rmb 19.5 million or 67.3% from Rmb 29.0 million in FY2009 to Rmb 9.5 million in FY2010. This decrease was mainly due to lower impairment loss on doubtful trade receivables (net of write-back), write-off of defective inventories, write-off of prepayments, deposits and other receivables, loss on disposal of property, plant and equipment, loss on sale of raw materials and by-products and donations of Rmb 12.7 million, Rmb 3.1 million, Rmb 1.9 million, Rmb 1.7 million, Rmb 0.7 million and Rmb 0.1 million respectively. The above decreases were partially offset by higher provision for inventory obsolescence (net of write-back) and research expenses of Rmb 0.6 million and Rmb 0.1 million respectively.

Financial expense

Our financial expense increased by Rmb 3.9 million or 29.6% from Rmb 13.2 million in FY2009 to Rmb 17.1 million in FY2010. This increase was mainly due to higher interest rates charged on loans and borrowings and higher interest expense incurred as a higher amount of loans and borrowings were outstanding.



Financial income

Our financial income increased by Rmb 0.1 million or 15.3% from Rmb 0.5 million in FY2009 to Rmb 0.6 million in FY2010. This increase was due to higher interest income earned from bank deposits.

Share of results of associates

Our share of results of associates changed by Rmb 1.6 million from a profit of Rmb 0.1 million in FY2009 to a loss of Rmb 1.5 million in FY2010. This loss was mainly due to the start-up costs of our new associate, Aton (Nanjing) Water Services Co., Ltd. that was incorporated in January 2010, which resulted in a loss contribution.

Tax expense

Our tax expense increased by Rmb 2.2 million or 14.7% from Rmb 15.1 million in FY2009 to Rmb 17.3 million in FY2010. This increase was mainly due to our higher profitability.

Balance Sheet

Non-current assets

As at 31 December 2010, our non-current assets amounted to Rmb 399.8 million, an increase of Rmb 68.0 million or 20.5% compared to the preceding financial year end as at 31 December 2009. This increase was due to higher property, plant and equipment, investment in associates and deferred tax assets (relating to impairment loss on doubtful trade receivables and provision for inventory obsolescence) of Rmb 43.0 million, Rmb 25.8 million and Rmb 0.2 million respectively and partially offset by lower land use rights of Rmb 1.0 million. The increase in property, plant and equipment was due to additions of Rmb 78.4 million (mainly plant and machinery and construction in progress) and partially offset by disposals of Rmb 1.4 million (mainly plant and machinery and motor vehicles) and depreciation charge of Rmb 34.0 million. The increase in investment in associates was due to our investment in two new associates (Aton (Nanjing) Water Services Co., Ltd. and Yunnan Aton High Molecular Materials Technology Co., Ltd.) and additional investment in an existing associate (Fujian Industrial Plastic Technology Research and Development Co., Ltd.) of Rmb 26.9 million and Rmb 0.4 million respectively which were partially offset by the equity accounting of our Group's share of losses for FY2010 of Rmb 1.5 million. The decrease in land use rights was due to amortisation charge of Rmb 1.0 million.

Current assets

As at 31 December 2010, our current assets amounted to Rmb 762.6 million, an increase of Rmb 116.2 million or 18.0% compared to the preceding financial year end as at 31 December 2009. This increase was due to higher inventories, work-in-progress in excess of progress billings, trade receivables, other receivables, prepayments, trade amount due from an associate, non-trade amount due from an associate and pledged bank balances of Rmb 16.8 million, Rmb 21.4 million, Rmb 73.3 million, Rmb 15.2 million, Rmb 32.6 million, Rmb 0.7 million, Rmb 0.3 million and Rmb 19.2 million respectively and partially offset by lower bills receivable from banks and commercial companies and cash and cash equivalents of Rmb 11.2 million and Rmb 52.1 million respectively.

The increase in inventories was mainly due to the stocking up of finished goods to meet the anticipated requirements of our customers. Average inventory turnover days was 73 days in FY2010 as compared to 79 days in FY2009.

The increase in work-in-progress in excess of progress billings comprises of the contract costs incurred in FY2010 of Rmb 60.8 million and the profits recognised of Rmb 29.7 million less the progress billings of Rmb 69.1 million on our build-transfer projects.

The increase in trade receivables was mainly due to the higher sales made in FY2010, thereby contributing to the build-up in trade receivables as at 31 December 2010. Average trade receivables turnover days was 101 days in FY2010 as compared to 105 days in FY2009. This is as compared to the credit terms of 90 to 180 days generally granted to our customers.

The increase in other receivables was due to higher value-added tax receivables, other receivables, deposits paid (such as for tender of sale contracts) and staff advances of Rmb 10.0 million, Rmb 3.2 million, Rmb 1.7 million and Rmb 0.3 million respectively.

The increase in prepayments was due to higher prepayments of Rmb 38.5 million for items such as raw materials and plant and machinery which were partially offset by lower prepayments of Rmb 5.9 million for items such as low value consumables and operating expenses.

The trade amount due from an associate relates to amount owing for sales made to the associate during the year.

The increase in non-trade amount due from an associate was due to advances of Rmb 0.7 million given to an associate and partially offset by the transfer of Rmb 0.4 million to investment in associates after the amount had been certified as capital contribution.

The increase in pledged bank balances was due to higher bank balances pledged to banks as security for banking facilities (including bills payable) extended to our Group.

The decrease in bills receivable from banks and commercial companies was mainly due to the decreased use of this facility.

The decrease in cash and cash equivalents was attributable to cash outflows from investing activities and partially offset by cash inflows from operating and financing activities.

Current liabilities

As at 31 December 2010, our current liabilities amounted to Rmb 477.3 million, an increase of Rmb 123.1 million or 34.7% compared to the preceding financial year end as at 31 December 2009. This increase was due to higher trade payables, bills payable to banks and commercial companies, accrued liabilities and other payables, current portion of interest-bearing loans and borrowings and income tax payable of Rmb 0.7 million, Rmb 60.3 million, Rmb 1.4 million, Rmb 58.3 million and Rmb 2.7 million respectively and partially offset by lower dividend payable of Rmb 0.3 million.

The increase in trade payables was mainly due to the higher purchases made in line with the business activities of our Group and partially offset by payments made.

The increase in bills payable to banks and commercial companies was mainly due to the increased use of this facility.

The increase in accrued liabilities and other payables was due to higher other payables of Rmb 4.3 million, accrued liabilities of Rmb 1.9 million and salary and welfare payable of Rmb 1.0 million and partially offset by lower advances received from customers of Rmb 3.9 million, value-added and other operating taxes payable of Rmb 1.8 million and deferred income of Rmb 0.1 million.

The increase in current portion of interest-bearing loans and borrowings was due to loans and borrowings of Rmb 47.1 million being reclassified from non-current to current as they become due and repayable within the next 12 months from 31 December 2010 and new loans and borrowings of Rmb 293.9 million taken out to finance capital expenditure as well as working capital needs which were partially offset by the repayment of matured loans and borrowings of Rmb 282.7 million.

The increase in income tax payable was due to the provision for income tax of Rmb 14.8 million on our profit for FY2010 and partially offset by payments made in FY2010 of Rmb 12.1 million.

The decrease in dividend payable was due to the payment of the amount during FY2010.

Non-current liabilities

As at 31 December 2010, our non-current liabilities amounted to Rmb 68.1 million, an increase of Rmb 12.6 million or 22.8% compared to the preceding financial year end as at 31 December 2009. This increase was due to new loans and borrowings of Rmb 57.5 million taken out to finance capital expenditure as well as working capital needs which were partially offset by loans and borrowings of Rmb 47.1 million being reclassified from non-current to current as they become due and repayable within the next 12 months from 31 December 2010. In addition, there was a provision for deferred tax liabilities of Rmb 2.7 million relating mainly to withholding tax on certain amount of the distributable profits for FY2010 of our People's Republic of China subsidiaries on the assumption that those distributable profits will be distributed as dividends in the future. The above increases were partially offset by decreases in term loan from an external party and deferred capital grant of Rmb 0.3 million and Rmb 0.2 million respectively.

Shareholders' equity

Our shareholders' equity increased by Rmb 44.2 million or 8.4% from Rmb 525.0 million as at 31 December 2009 to Rmb 569.2 million as at 31 December 2010 as a result of the net profit generated for FY2010 of Rmb 66.1 million and partially offset by the payment of a dividend of Rmb 21.9 million to our Company's shareholders in respect of FY2009.

Cash Flows and Liquidity

For FY2010, net cash generated from operating activities amounted to Rmb 19.5 million. This arose from our operating profit before tax of Rmb 88.4 million, adjusted for non-cash items amounting to Rmb 54.4 million, cash outflow from a net increase in working capital requirements of Rmb 94.7 million, payment of interest expense (net of interest income) of Rmb 16.5 million and payment of income tax of Rmb 12.1 million.

For FY2010, net cash used in investing activities was Rmb 97.9 million. This was due to the purchase of property, plant and equipment of Rmb 71.4 million and the investment in two new associates, Aton (Nanjing) Water Services Co., Ltd. and Yunnan Aton High Molecular Materials Technology Co., Ltd. of Rmb 26.9 million and partially offset by the proceeds from the disposal of property, plant and equipment of Rmb 0.4 million.

For FY2010, net cash generated from financing activities was Rmb 26.3 million. This was due to proceeds from new loans and borrowings of Rmb 351.4 million and partially offset by payment of dividends to shareholders of our Company and non-controlling interests of subsidiaries of Rmb 21.9 million and Rmb 0.9 million respectively, repayment of loan from an external party and loans and borrowings of Rmb 0.4 million and Rmb 282.7 million respectively and an increase in pledged bank balances of Rmb 19.2 million. The new loans and borrowings were used to finance capital expenditure as well as working capital needs.

Based on the above, we had a net decrease in cash and cash equivalents of Rmb 52.1 million in FY2010 and our cash and cash equivalents stood at Rmb 107.1 million as at 31 December 2010.

Board of Directors

Kusnadi Lybianto	-	Non-Executive Chairman
Chen Li Hui	-	Chief Executive Officer and Executive Director
Chen Que	-	Chief Operating Officer and Executive Director
Sim Siew Boi	-	Independent Director
Sim Yong Chan	-	Independent Director

Audit Committee
Sim Siew Boi, Chairman
Kusnadi Lybianto
Sim Yong Chan

Nominating Committee
Sim Yong Chan, Chairman
Kusnadi Lybianto
Sim Siew Boi

Remuneration Committee
Sim Siew Boi, Chairman
Kusnadi Lybianto
Sim Yong Chan

Joint Company Secretaries
Gn Jong Yuh Gwendolyn
Tan Yong Kwang

Registered Office
1 Robinson Road #18-00
AIA Tower
Singapore 048542
Telephone: (65) 6535 1944
Facsimile: (65) 6535 8577

Principal Places of Business
Jingyang Industrial Area of Fuqing City
Fujian Province 350304
The People's Republic of China
Telephone: (86) 591 8531 5915
Facsimile: (86) 591 8531 1542

10 Anson Road #19-09
International Plaza
Singapore 079903
Telephone: (65) 6223 8230
Facsimile: (65) 6223 8279

Website: www.sinopipe.com.sg

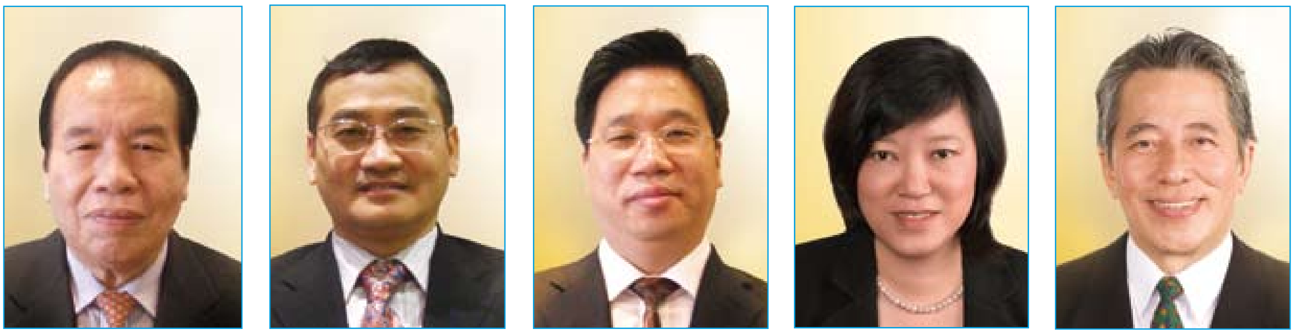
Company Registration Number
200411382N

Share Registrar
Boardroom Corporate & Advisory
Services Pte Ltd
50 Raffles Place #32-01
Singapore Land Tower
Singapore 048623

Auditors
Ernst & Young LLP
One Raffles Quay
North Tower Level 18
Singapore 048583

Partner-in-charge: Tan Peck Yen
Appointed since financial year ended
31 December 2007

Principal Banker
Industrial and Commercial Bank of China
Fuqing City Branch
No. 7 Jiangbin Road
Fuqing City Fujian Province
The People's Republic of China



From left: Kusnadi Lybianto, Chen Li Hui, Chen Que, Sim Siew Boi and Sim Yong Chan

Kusnadi Lybianto, 78

Chairman and Non-Executive Director

Mr Lybianto is a founder of our Group and was last appointed to our Board of Directors (the "Board") on 30 April 2010. As Mr Lybianto is over 70 years of age, he will be due for re-appointment at this coming Annual General Meeting ("AGM") pursuant to Section 153(6) of the Singapore Companies Act, Cap. 50. Mr Lybianto is a member of the Audit, Nominating and Remuneration Committees. As our Non-Executive Chairman, Mr Lybianto is tasked with the leadership of our Board. Since setting up Fujian Aton Advanced Materials Science and Technology Co., Ltd. ("Fujian Atontech") in 1994, Mr Lybianto was instrumental in expanding the business of our Group from a single joint venture enterprise in Fuqing City, Fujian Province, the People's Republic of China (the "PRC") to our current network of companies and branches throughout the PRC. Mr Lybianto has many years of business experience in other industries. Before setting up Fujian Atontech, he was involved in managing his own businesses in the textile, general hardware and steel wire industries in Singapore and Indonesia. He is still currently involved in the steel wire industry in Indonesia, which supplies metal spokes for motorcycles. Mr Lybianto completed his secondary education in the PRC. He is the vice-chairman of the International Federation of Fuqing Clan and an advisor to the Fuqing Association of Jakarta Indonesia.

Chen Li Hui, 49

Chief Executive Officer and Executive Director

Mr Chen is also a founder of our Group. Together with Mr Kusnadi Lybianto, Mr Chen played a pivotal role in the growth and expansion of our Group. Mr Chen was appointed to our Board on 1 December 2004 and will be due for re-election at this coming AGM. He currently oversees the overall day-to-day management, sales and operations of our Group and is also responsible for formulating and implementing business strategies and policies of our Group. Mr Chen started his career with Xiamen Maritime Bureau as deputy station head of the radio control station from 1984 to 1989. In 1989, he joined Unitex Plastics Co., Ltd. as a deputy manager of the engineering department where he was responsible for the construction, expansion and overall maintenance and management of the plastic film production facilities. After leaving Unitex Plastics Co., Ltd. in 1991, he joined Fujian ZhenYun Plastic Co., Ltd. as a general manager and director, where his responsibilities involved the general management and operations of the company. Mr Chen has a Bachelor of Science degree from Fuzhou University. He is the chairman of the Plastic Piping Sub-Committee Affiliated with China Plastics Industry Association and an executive committee member of the All-China Federation of Industry & Commerce.

Chen Que, 47

Chief Operating Officer and Executive Director

Mr Chen was appointed to our Board on 1 December 2004 and was last elected on 30 April 2010. Mr Chen joined Fujian Atontech in 1994 as a factory manager, handling mainly production and engineering related operations. Thereafter, in 1995, he was promoted to deputy general manager, in charge of overseeing human resource, administrative and production activities. He is currently responsible for the general administration of our Group, including human resource management and our procurement and production process. In addition, he is in charge of technology and research and development activities of our Group. Mr Chen graduated with a Bachelor of Science degree from South China University of Technology. He started his career with Fuzhou Tyre Retreading Factory as a technical manager from 1984 to 1993. From 1993 to 1994, he was with Fujian Sanfeng Shoe Co., Ltd. as a technical manager, primarily responsible for overseeing the technology development of the company. Mr Chen is a certified Senior Engineer and is currently involved as a delegate of the National Standardisation Technical Committee for Plastic Products (SAC/TC48) and Sub-Committee for Plastic Pipes, Fittings and Valves (TC48/SC3).

Sim Siew Boi, 51

Independent Director

Ms Sim was appointed to our Board on 7 May 2010 and will be due for re-election at this coming AGM. She is the Chairman of the Audit and Remuneration Committees and a member of the Nominating Committee. She is currently the General Manager of C K Ow Holdings Pte Ltd, a property investment company which she joined in 1989. She started her career in England with Newman and Partners from 1982 to 1987. Thereafter, she joined Price Waterhouse Singapore and was an audit supervisor when she left the company in 1989. Ms Sim has a Bachelor of Accounting and Finance degree from Kingston University, England. She is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Institute of Certified Public Accountants of Singapore and a fellow member of the CPA Australia.

Sim Yong Chan, 64

Independent Director

Mr Sim was appointed to our Board on 1 November 2004 and was last elected on 30 April 2009. He is the Chairman of the Nominating Committee and a member of the Audit and Remuneration Committees. He is an advocate and solicitor and is a partner in Arthur Loke & Sim LLP. Mr Sim has over 28 years of experience in legal practice. He started his legal career with Chor Pee & Hin Hiong from 1973 to 1976. Thereafter, he left practice to join the family business. In 1984, he set up Sim Yong Chan & Co, and has been in legal practice ever since. Mr Sim has a Bachelor of Laws degree from the University of Singapore and a Master of Laws degree from the National University of Singapore. He is a member of the Singapore Institute of Directors, a committee member of the Association of Criminal Lawyers of Singapore, a fellow of the Singapore Institute of Arbitrators and the legal advisor to the Singapore Pasir Panjang Beach Road Market Vegetables and Fruits Dealers Association and the Teochew Poit Ip Huay Kuan. Mr Sim is on the board of another listed company, namely Yamada Green Resources Limited.

Tan Yong Kwang, 38

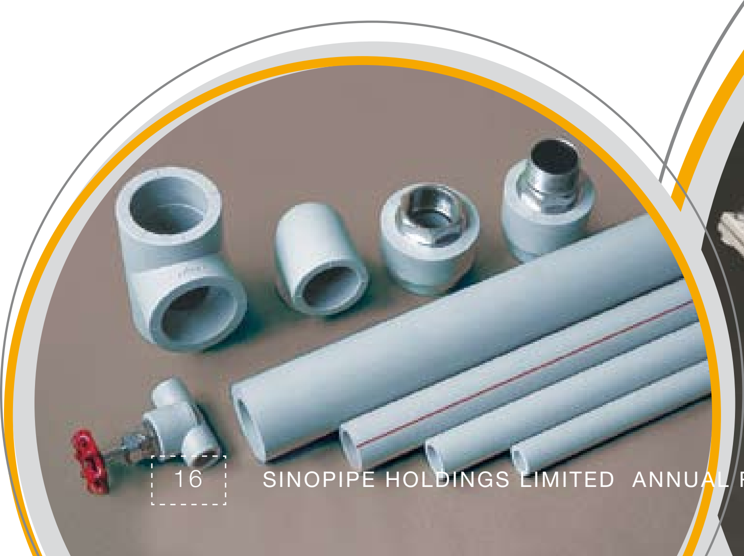
Chief Financial Officer

Mr Tan joined our Group in November 2004 and is in charge of our Company's financial and accounting functions in Singapore. In addition, he is responsible for overseeing the financial reporting, accounting functions and compliance requirements relating to our Group with respect to Singapore laws and regulations. Prior to joining our Group, he was with the Assurance and Advisory Business Services division of Ernst & Young from July 2002. He was a manager when he left Ernst & Young in November 2004. From December 1999 to June 2002, he was with the Assurance division of Arthur Andersen. Prior to that he was with the Personal Tax Solutions division of PricewaterhouseCoopers. Mr Tan holds a Diploma in Business with Merit (majoring in Accounting and Finance) from Temasek Polytechnic. He is a fellow member of The Association of Chartered Certified Accountants and a non-practising member of the Institute of Certified Public Accountants of Singapore.

Zhuang Qing, 46

General Manager (Finance, Investment and Business Development)

Mr Zhuang joined our Group in 2001 and is currently responsible for finance, investment activities and business development of our Group. From 1991 to 2001, he was with the Fuzhou branch of Hua Neng Power International Co., Ltd., first as a deputy general manager of the finance department from 1991 to 1995, and subsequently as a deputy general manager of the planning department from 1995 to 2001. He was pursuing his Master in Economics degree in the Wuhan College of Hydraulic and Electric Power (now known as Wuhan University) between 1988 to 1991. From 1984 to 1988, he was a supervisor heading the production department of Fujian ZhangPing Electric Power Plant. Mr Zhuang holds a Masters degree in Economics from Wuhan College of Hydraulic and Electric Power (now known as Wuhan University) and is a certified Senior Economist.



Sinopipe Holdings Limited (the "Company") is committed to maintaining a high standard of corporate governance and has put in place self-regulatory corporate practices to protect the interests of its shareholders and enhance long-term shareholder value.

This Corporate Governance Report describes the Company's corporate governance processes and activities. For proper reference, the relevant provisions of the Code of Corporate Governance 2005 (the "Code") under discussion are identified in bold.

In line with the Code, the Board of Directors (the "Board") hereby confirms that the Company has adhered to the principles and guidelines of the Code and all deviations from the Code are disclosed and explained.

BOARD OF DIRECTORS

Principle 1 : Board's Conduct of its Affairs

The Company is effectively headed by the Board to lead and control it. Apart from its statutory duties and responsibilities, the Board is collectively responsible for the success of the Company and its subsidiaries (the "Group") and it works with Management to achieve this. The Management remains accountable to the Board. The Board oversees the affairs of the Group and focuses on strategies and policies, with particular attention paid to growth and financial performance. It delegates the formulation of business policies and day-to-day management to the Executive Directors. The Board is responsible for:

1. providing entrepreneurial leadership, setting strategic aims, and ensuring that the necessary financial and human resources are in place for the Group to meet its objectives;

2. establishing a framework of prudent and effective controls which enables risk to be assessed and managed;

3. reviewing Management performance;

4. setting the Group's values and standards, and ensuring that obligations to shareholders and others are understood and met;

5. ensuring the Group's compliance with laws, regulations, policies, directives, guidelines and internal code of conduct;

6. ensuring the Group's compliance with good corporate governance practices; and

7. approving quarterly, half-year and full-year result announcements.

The Company has adopted internal guidelines setting forth matters that require Board approval, examples of which include corporate plans and budgets, material acquisitions and disposals of assets, share issuances, dividends and other returns to shareholders. All Directors objectively make decisions in the interests of the Company. The Board also delegates certain of its functions to the Audit, Nominating and Remuneration Committees and these functions are described separately under the various sections of each Committee below. Each Committee has its own defined terms of reference and operating procedures.

The Board is scheduled to meet at least four times a year and as and when warranted by circumstances. The Company's Articles of Association allow a board meeting to be conducted by way of a telephone conference or by means of similar communication equipment whereby all persons participating in the meeting are able to hear each other.

The number of meetings held in respect of the financial year 2010 and the attendance of the Directors are set out in the table below:

Directors' attendance at Board and Board Committee Meetings								
	Board Meeting		**Audit Committee Meeting**		**Nominating Committee Meeting**		**Remuneration Committee Meeting**	
Name of Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Kusnadi Lybianto	4	4	4	4	1	1	1	1
Chen Li Hui	4	4	4	4*	1	1*	1	1*
Chen Que	4	4	4	4*	1	1*	1	1*
Sim Siew Boi	4	4	4	4	1	1	1	1
Sim Yong Chan	4	4	4	4	1	1	1	1

* Attendance by invitation

When new Directors are appointed, the Company will provide a formal letter to the new Directors setting out their duties and obligations. In addition, the new Directors will undergo an orientation program where the Chief Executive Officer will brief them on the Group's business, policies and governance practices to ensure that they are familiar with them. Directors and key executives undergo relevant training to enhance their skills and knowledge, particularly on new laws, regulations and changing risks affecting the Group's operations. Other forms of training include governance practices and training in accounting, legal and industry-specific knowledge.

Principle 2 : Board Composition and Guidance

The Board comprises:

Kusnadi Lybianto	(Non-Executive Chairman)
Chen Li Hui	(Chief Executive Officer and Executive Director)
Chen Que	(Chief Operating Officer and Executive Director)
Sim Siew Boi	(Independent Director)
Sim Yong Chan	(Independent Director)

The Board, taking into account the nature and scope of the Group's operations and the impact of the number of Directors for effectiveness in decision making, is of the view that the current board size of five Directors, with at least one-third of the Directors being independent, is appropriate. The Board exercises judgment on corporate affairs objectively and independently, in particular, from Management and no individual or small group of individuals dominates the Board's decision making.

The Independent Directors consist of respected individuals from different backgrounds whose core competencies, qualifications, skills and experience are extensive and complementary and these competencies include accounting, finance and business management. None of the Independent Directors have any relationship with the Company, its related companies or its officers that could interfere, or be perceived to interfere, with the exercise of their independent business judgment in the best interests of the Company.

The Non-Executive Directors constructively challenge and help develop proposals on strategy and also review the performance of Management in meeting agreed goals and objectives, and monitor the reporting of performance. They meet regularly on their own without the presence of Management.

The composition of the Board and independence of each Non-Executive Director are and will be reviewed annually by the Nominating Committee.

Principle 3 : Role of Chairman and Chief Executive Officer

The Company keeps the positions of Chairman and Chief Executive Officer ("CEO") separate, thus ensuring an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The Chairman of the Company is Kusnadi Lybianto and the CEO is Chen Li Hui. The division of responsibilities between the Chairman and the CEO has been clearly established, set out in writing and agreed by the Board. The Chairman and the CEO are not related to each other. The CEO is primarily responsible for the overall management, strategic planning and business development of the Group, while the Chairman is responsible for the effective working of the Board. The responsibilities of the Chairman include:

1. leading the Board to ensure its effectiveness on all aspects of its role and setting its agenda;

2. ensuring that the Directors receive accurate, timely and clear information;

3. ensuring effective communication and preserving harmonious relations with the shareholders;

4. encouraging constructive relations between the Board and Management and between the Executive Directors and Non-Executive Directors;

5. facilitating the effective contribution of the Non-Executive Directors in particular;

6. promoting high standards of corporate governance and ensuring the Group's compliance with the Code; and

7. acting in the best interest of the Group and the shareholders.

BOARD COMMITTEES

Nominating Committee

Principle 4 : Board Membership

Principle 5 : Board Performance

The members of the Nominating Committee ("NC") are as follows:

Sim Yong Chan	(Chairman)
Kusnadi Lybianto	(Member)
Sim Siew Boi	(Member)

The NC is made up of three Non-Executive Directors with two of them, including the Chairman being independent. The NC is scheduled to meet at least once a year and had convened a meeting on 23 February 2011. The NC is regulated by a set of terms of reference and its role is to establish a formal and transparent process for:

1. making recommendations to the Board on all Board appointments;

2. re-nomination of the Directors having regard to each Director's contribution and performance, including, if applicable, as an Independent Director;

3. determining annually whether or not a Director is independent; and

4. deciding whether or not a Director is able to and has adequately carried out his duties as a director.

In the selection and nomination for new Directors, the NC identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the NC taps on the resources of the Directors' personal contacts for recommendations of potential candidates. Executive recruitment agencies may also be appointed to assist in the search process where necessary. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the NC to assess them before a decision is made.

New Directors are appointed by way of a board resolution, after the NC has approved their nominations. Such new Directors submit themselves for re-election at the next Annual General Meeting ("AGM") of the Company. Pursuant to the Company's Articles of Association, all Directors are required to submit themselves for re-election at least once every three years. Profiles of the Directors are found on pages 14 and 15 of this Annual Report. In addition, pursuant to the Companies Act, Cap. 50, a Director who attains the age of 70 years may, by an ordinary resolution passed at an AGM of the Company be re-appointed as a Director of the Company to hold office until the next AGM. The Directors who are retiring and who, being eligible, will offer themselves for re-appointment or re-election at the forthcoming AGM are named below:

Name of Director	**Date of appointment**	**Due for re-appointment**	**Due for re-election**
Kusnadi Lybianto *	30 April 2010	√	
Chen Li Hui	1 December 2004		√
Chen Que	1 December 2004		
Sim Siew Boi	7 May 2010		√
Sim Yong Chan	1 November 2004		

* Kusnadi Lybianto is above 70 years of age.

The NC Chairman is not, and is not directly associated with, a substantial shareholder with interest of 5% or more in the voting shares of the Company.

Although the Independent Directors hold directorships in other companies which are not in the Group, the Board is of the view that such multiple board representations do not hinder them from carrying out their duties as Directors. These Directors would widen the experience of the Board and give it a broader perspective. The Company has adopted internal guidelines to address the competing time commitments faced by these Directors serving on multiple boards.

The NC has established a formal appraisal process to assess the performance and effectiveness of the Board as a whole as well as to assess the individual Directors for their contribution and their commitment to their role. The appraisal process focuses on a set of performance criteria which includes the evaluation of the Board composition and size, the Board process, the Board effectiveness and training, the provision of information to the Board, the Board standards of conduct and financial performance indicators. Such performance criteria are approved by the Board and they address how the Board has enhanced long term shareholders' value. The performance criteria do not change unless circumstances deem it necessary and a decision to change them would be justified by the Board.

The Chairman acts on the results of the performance evaluation, and where appropriate, proposes new members to be appointed to the Board or seek the resignation of Directors in consultation with the NC.

Audit Committee

Principle 11 : Audit Committee

Principle 12 : Internal Controls

Principle 13 : Internal Audit

The Audit Committee ("AC") comprises the following Directors:

Sim Siew Boi	(Chairman)
Kusnadi Lybianto	(Member)
Sim Yong Chan	(Member)

The AC is made up of three Non-Executive Directors with two of them, including the Chairman being independent. The AC is scheduled to meet at least four times a year. For the financial year 2010, the AC met four times. The AC is regulated by a written set of terms of reference and performs the following functions:

1. reviewing significant financial reporting issues and judgments so as to ensure the integrity of the financial statements and any formal announcements relating to the Group's financial performance before their submission to the Board;

2. reviewing the audit plans of the Company's external and internal auditors and the results of their examination and their cost effectiveness;

3. reviewing the co-operation given by the Group's officers to the external and internal auditors;

4. reviewing adequacy and effectiveness of the Group's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors;

5. reviewing the adequacy and effectiveness of the Group's internal audit function;

6. nominating or recommending the nomination of the external auditors for appointment, re-appointment or removal;

7. approving the remuneration and terms of engagement of the external auditors;

8. reviewing the independence and objectivity of the external auditors at least annually; and

9. reviewing interested person transactions.

In addition to the above, the AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any Director or key executive to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The Board considers that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members have accounting or related financial management expertise and experience.

The external and internal auditors have full access to the AC. The Company has put in place a whistle-blowing framework, endorsed by the AC, where employees of the Group may raise concerns about possible improprieties in matters of financial reporting or other matters in confidence to the AC. This arrangement facilitates independent investigation of such matters for appropriate resolution. The AC has express power to commission investigations into any matter, which has or is likely to have material impact on the Group's operating results or financial results.

For the financial year 2010, the AC met once with the external auditors without the presence of the Management. The AC has undertaken a review of all non-audit services provided by the external auditors for the financial year 2010, including the nature and extent of such services and has balanced the maintenance of objectivity and value for money and is satisfied that the provision of such services has not in the AC's opinion affected the independence of the external auditors.

The Board ensures the Management maintains a sound system of internal controls to safeguard the shareholders' investment and the Group's assets. Certain internal accounting control weaknesses that the external auditors became aware of during their audit for the financial year ended 31 December 2010 have been communicated in their letter to Management and reported to the AC. Management will follow up on the external auditors' recommendations in an effort to strengthen the Group's internal control systems.

The Company has established an internal audit function that is independent of the activities it audits. As recommended by the AC, the Company has outsourced the internal audit function to an independent auditing firm, Crowe Horwath First Trust Risk Advisory Pte Ltd (formerly known as Horwath First Trust Risk Advisory Pte Ltd). The internal auditors will report to the Chairman of the AC on audit matters and to the CEO for administrative matters. The internal audit plan will be approved by the AC and the results of the audit findings will be submitted to the AC for its review. For the financial year 2010, the internal auditors have reviewed key internal controls in selected areas as advised by the AC and have reported their findings together with recommendations on areas of improvement to the AC for review and approval, so as to have better and more effective internal controls. The AC is satisfied that the Group's internal audit function is adequately outsourced, resourced and has appropriate standing within the Group, that the internal auditors meet the standards set by nationally recognised professional bodies like the Singapore Standards on Auditing issued by the Institute of Certified Public Accountants of Singapore and that there are adequate internal controls in the Group, including financial, operational and compliance controls and risk management. For the financial year 2010, the AC met once with the internal auditors without the presence of Management.

Remuneration Matters

Principle 7 : Procedures for Developing Remuneration Policies

Principle 8 : Level and Mix of Remuneration

Principle 9 : Disclosure on Remuneration

The Remuneration Committee ("RC") comprises the following Directors:

Sim Siew Boi	(Chairman)
Kusnadi Lybianto	(Member)
Sim Yong Chan	(Member)

The RC is made up of entirely Non-Executive Directors with two of them, including the Chairman being independent so as to minimise the risk of any potential conflict.

The RC is scheduled to meet at least once a year and had convened a meeting on 11 November 2010. The RC is regulated by a set of terms of reference and has access to independent professional advice inside and outside the Company, if necessary, in respect of the remuneration of all Directors and key executives.

The RC's main duties are:

1. to review and recommend to the Board a framework of remuneration and to determine the specific remuneration packages and terms of employment for each of the Directors and key executives, including those employees related to the Executive Directors and controlling shareholders of the Group, if any, bearing in mind the need for a cautious comparison (in order to prevent the risk of an upward ratchet of remuneration levels with no corresponding improvements in performance) of pay and employment conditions of comparable companies in the same or similar industries, and to submit such recommendations for endorsement by the entire Board; and

2. to carry out its duties in the manner that it deemed expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board from time to time.

As part of its review, the RC shall ensure that:

1. all aspects of remuneration, including Directors' fees, salaries, allowances, bonuses, options and benefits-in-kinds are covered;

2. the remuneration packages of Directors and key executives are comparable to companies in same or similar industries and that for Executive Directors, a significant proportion of such remuneration packages include performance-related elements;

3. the performance-related elements mentioned above are designed to align interests of Executive Directors with those of shareholders, that they link rewards to corporate and individual performance and that there are appropriate and meaningful measures for the purpose of assessing such performance-related elements in respect of Executive Directors;

4. the level of remuneration of Non-Executive Directors are appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the Directors, but also bearing in mind that Non-Executive Directors are not over-compensated to the extent that their independence may be compromised;

5. the level of remuneration is appropriate to attract, retain and motivate the Directors needed to run the Group successfully without such levels being more than is necessary for this purpose; and

6. the remuneration package of employees related to Executive Directors and controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scopes and levels of responsibilities.

The Company adopts a formal and transparent procedure for developing policy on key executive remuneration and for fixing remuneration packages of individual Directors. No Director is involved in deciding his own remuneration. In setting remuneration packages, the Company takes into account pay and employment conditions of comparable companies in the same or similar industries, as well as the Group's relative performance and the performance of individual Director or key executive.

Executive Directors do not receive directors' fees. The remuneration policy for Executive Directors and key executives consists of two components, namely fixed cash and annual variable. The fixed component includes salary, pension fund contributions and other allowances. The variable component comprises of performance based bonus which, for Executive Directors, forms a significant proportion of their total remuneration package and is payable on the achievement of corporate and individual performance targets. The Company has no long-term incentive schemes such as offer of shares or granting of options in place as it considers that it is not cost effective to administer such schemes currently.

The Non-Executive and Independent Directors do not have any service contracts. They are paid a basic fee and additional fees for serving on any of the Committees. In determining the quantum of such fees, factors such as frequency of meetings, time spent and responsibilities of Directors are taken into account. The Board recommends payment of such fees to be approved by shareholders as a lump sum payment at the AGM of the Company.

The Executive Directors are paid in accordance with their respective service agreements. These service agreements are not excessively long and they do not have onerous removal clauses. The Executive Directors or the Company may terminate the service agreement by giving to the other party not less than six months' notice in writing, or in lieu of notice, payment of an amount equivalent to six months' salary based on the Executive Director's last drawn salary. The RC aims to be fair and avoids rewarding poor performance, if any. A breakdown, showing the level and mix of each individual Director's remuneration for the financial year 2010 is as follows:

Name of Director	Remuneration Band S$	Salary %	Fees %	Performance Bonus %	Other Benefits %	Total Remuneration %
Executive Directors						
Chen Li Hui	< 250,000	100	–	–	–	100
Chen Que	< 250,000	100	–	–	–	100
Non–Executive Directors						
Kusnadi Lybianto	< 250,000	–	100	–	–	100
Ng Cher Yan *	< 250,000	–	100	–	–	100
Sim Siew Boi	< 250,000	–	100	–	–	100
Sim Yong Chan	< 250,000	–	100	–	–	100

* Ng Cher Yan retired on 30 April 2010.

Disclosure of the two key executives' remuneration in bands of S$250,000 for the financial year 2010 is as follows:

Name of Key Executive	Remuneration Band S$	Salary %	Performance Bonus %	Other Benefits %	Total Remuneration %
Tan Yong Kwang	< 250,000	89	11	–	100
Zhuang Qing	< 250,000	100	–	–	100

For the financial year 2010, there was one employee of the Group who is related to our Directors and substantial shareholders. This employee was Chen Li Ping (sister of our CEO and Executive Director, Chen Li Hui), a procurement manager of the Group. The aggregate remuneration of Chen Li Ping for the financial year 2010 is less than S$150,000.

Principle 6 : Access to Information

In order to ensure that the Board is able to fulfill its responsibilities, Management provides the Board members with regular management accounts and all relevant information. In addition, all relevant information on material events and transactions are circulated to Directors as and when they arise. Whenever necessary, senior management staff will be invited to attend the Board meetings and AC meetings to answer queries and provide detailed insights into their areas of operations. The Board, either individually or as a group, also has separate and independent access to the senior management staff. A quarterly report of the Group's activities is also provided to the Directors.

The Board, either individually or as a group, in the discharge of its duties, has access to independent professional advice, if necessary, at the Company's expense.

The Board members have separate and independent access to the Company Secretary. Under the direction of the Chairman, the Company Secretary ensures good information flow within the Board and its committees and between Management and Non-Executive Directors, as well as facilitates orientation and assists with professional development as required. The Company Secretary attends all Board meetings and AC meetings. The Company Secretary assists the Board to ensure that the Board procedures and relevant rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

COMMUNICATION WITH SHAREHOLDERS

Principle 10 : Accountability

Principle 14 : Communication with Shareholders

Principle 15 : Greater Shareholder Participation

The Company recognises the need to communicate regularly, effectively and fairly with shareholders on all material matters affecting the Group and does not practice selective disclosure. In this respect, the Board presents a balanced and understandable assessment of the Group's performance, position and prospects and such responsibility extends to price sensitive announcements, including quarterly, half-year and full-year results and reports to regulators, if any, all of which are released through SGXNET. All press releases are announced through SGXNET before they are published. Where there is inadvertent disclosure made to a selected group, the Company ensures that the same is disclosed publicly to all others as soon as practicable. To date, there are no such inadvertent disclosures.

The Company may also hold media meetings on significant events.

All shareholders of the Company receive the Annual Report and notice of the upcoming AGM. At AGMs, shareholders are encouraged to participate and are given the opportunity to air their views and ask questions regarding the Group and its businesses. Separate resolutions on each substantially separate issue are proposed at general meetings for approval. "Bundling" of resolutions are kept to a minimum and are done only where the resolutions are interdependent so as to form one significant proposal and only where there are reasons and material implications involved. The external auditors and legal advisors (if necessary) are present to assist the Directors in addressing any queries by shareholders. In addition, the chairpersons of the AC, NC and RC are present to address questions at AGM.

Apart from AGMs, the Company also regularly conveys pertinent information, gathers views or inputs, and addresses shareholders' concerns. In disclosing information, the Company strives to be as descriptive, detailed and forthcoming as possible.

The Management also provides all members of the Board with management accounts which present a balanced and understandable assessment of the Group's performance, position and prospects on a regular basis.

The Articles of Association of the Company allow a member of the Company to appoint one or two proxies to attend and vote instead of the member. Voting in absentia and electronic mail may only be possible following careful study to ensure the integrity of the information and authentication of the identity of members through the web is not compromised and is also subject to legislative amendment to recognise electronic voting.

The Company records minutes of all AGMs and questions and comments from shareholders together with the respective responses are also recorded. These are available to shareholders upon request.

DEALINGS IN SECURITIES

In compliance with the Listing Manual of the Singapore Exchange Securities Trading Limited (the "SGX-ST"), the Company has adopted and implemented a code of conduct governing securities transactions by its Directors and key officers.

Under the code of conduct, the Directors and key officers are prohibited from dealing in the Company's securities at least one month before the announcement of the Company's quarterly, half-year and full-year results until one day after the release of the announcement.

The Directors and key officers are required to notify the Company of any dealings in the Company's securities (during the open window period) and within two business days of the transaction(s). At all times, the Directors and key officers are aware that it is an offence to deal with securities in the Company and those of other companies when they are in possession of unpublished price-sensitive information in relation to those securities and that the law on insider trading applies to them at all times. As such, the Directors and key officers ensure that their dealings in securities, if any, do not contravene the law.

The code of conduct also ensures that no Director or key officer deals in the Company's securities on short-term considerations.

The Directors and key officers are periodically reminded of all requirements of the code of conduct and all applicable laws via the regular circulation of internal memoranda. The internal memoranda ensure that the Directors and key officers are aware that they are subject to requirements set out in the various applicable laws. Each key officer is required to submit a declaration annually that he is in compliance with and has not breached the code of conduct.

In the above circumstances, in the opinion of the Directors, the Company has complied with the Listing Manual of the SGX-ST and with the Company's code of conduct and thus there is a high standard of corporate governance which will promote investor confidence in the Company's management.

MATERIAL CONTRACTS

Except as disclosed in the financial statements, there were no material contracts (including loans) of the Company or its subsidiaries involving the interests of the CEO, Directors or controlling shareholders which subsisted at the end of the financial year or have been entered into since the end of the previous financial year.

RISK MANAGEMENT

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as to take appropriate measures to control and mitigate these risks. The Group reviews all significant control policies and procedures and highlights all significant matters to the AC and the Board.

INTERESTED PERSON TRANSACTIONS

The Group has adopted an internal policy in respect of any transaction with interested party within the definition of Chapter 9 of the Listing Manual of the SGX-ST and has in place procedures for review and approval of all interested person transactions.

There are no interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual of the SGX-ST and excluding transactions amounting to less than S$100,000, there are no other interested person transactions during the financial year under review.

FINANCIAL STATEMENTS

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Sinopipe Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2010.

Directors

The directors of the Company in office at the date of this report are:

Kusnadi Lybianto, Non-Executive Chairman	(re-appointed on 30 April 2010)
Chen Li Hui, Chief Executive Officer and Executive Director	
Chen Que, Chief Operating Officer and Executive Director	
Sim Siew Boi, Independent Director	(appointed on 7 May 2010)
Sim Yong Chan, Independent Director	

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries), as stated below:

	Direct interest		Deemed interest	
	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
The Company				
(ordinary shares)				
Kusnadi Lybianto	29,201,660	29,201,660	–	–
Chen Li Hui	–	–	35,327,895	40,079,895
Chen Que	–	–	35,327,895	40,079,895

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2011.

By virtue of section 7 of the Singapore Companies Act, Cap. 50, Kusnadi Lybianto, Chen Li Hui and Chen Que are deemed to have interests in shares of the subsidiaries of the Company.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Directors’ contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Options

No options were issued by the Company or its subsidiaries during the financial year. As at 31 December 2010, there were no options on the unissued shares of the Company or its subsidiaries which were outstanding.

Audit committee

The audit committee carried out its functions in accordance with section 201B(5) of the Singapore Companies Act, Cap. 50. Further details regarding the audit committee are disclosed in the Corporate Governance Report.

Auditors

Ernst & Young LLP have expressed their willingness to accept re-appointment as auditors.

On behalf of the board of directors

Chen Li Hui
Director

Chen Que
Director

Singapore
11 March 2011

We, Chen Li Hui and Chen Que, being two of the directors of Sinopipe Holdings Limited, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, consolidated statement of comprehensive income, statements of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010, and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors

Chen Li Hui Director	Chen Que Director

Singapore
11 March 2011

Report on the Financial Statements

We have audited the accompanying financial statements of Sinopipe Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 33 to 99, which comprise the balance sheets of the Group and the Company as at 31 December 2010, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiary incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and Certified Public Accountants

Singapore
11 March 2011

(Amounts expressed in Renminbi)

	Note	Group 2010 Rmb'000	Group 2009 Rmb'000
Revenue	4	926,338	795,117
Cost of sales		(740,181)	(629,983)
Gross profit		186,157	165,134
Other operating income	5	6,208	7,259
Selling and distribution expenses		(38,708)	(40,136)
Administrative expenses		(37,748)	(36,432)
Other operating expenses	6	(9,466)	(28,956)
Profit from operations	7	106,443	66,869
Financial expense	8	(17,157)	(13,235)
Financial income	8	551	478
Share of results of associates		(1,460)	67
Profit before tax		88,377	54,179
Tax expense	9	(17,301)	(15,089)
Profit for the year, representing total comprehensive income		71,076	39,090
Profit, representing total comprehensive income attributable to:			
Equity holders of the Company		66,108	38,859
Non-controlling interests		4,968	231
		71,076	39,090
Earnings per share (Rmb cents)	10		
- Basic		29.37	17.26
- Diluted		29.37	17.26

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

BALANCE **SHEETS**
as at 31 December 2010

(Amounts expressed in Renminbi)

		Group		Company	
	Note	2010	2009	2010	2009
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Non-current assets					
Land use rights	11	45,105	46,125	–	–
Property, plant and equipment	12	324,640	281,588	14	17
Investment in subsidiaries	13	–	–	318,398	317,269
Investment in associates	14	26,792	1,021	26,856	–
Amounts due from subsidiaries (non-trade)	15	–	–	–	47,100
Deferred tax assets	16	3,253	3,024	–	–
		399,790	331,758	345,268	364,386
Current assets					
Inventories	17	154,146	137,331	–	–
Work-in-progress in excess of progress billings	18	95,772	74,362	–	–
Trade receivables	20	267,203	193,893	–	–
Bills receivable from banks and commercial companies	21	1,790	13,000	–	–
Other receivables	22	44,438	29,283	79	107
Prepayments	23	62,584	30,003	–	–
Amounts due from subsidiaries (non-trade)	15	–	–	45,499	73,593
Amount due from an associate (trade)	15	670	–	–	–
Amount due from an associate (non-trade)	15	707	375	–	–
Pledged bank balances	24	28,178	8,927	–	–
Cash and cash equivalents	24	107,087	159,145	2,326	1,517
		762,575	646,319	47,904	75,217
Current liabilities					
Trade payables	26	44,738	44,090	–	–
Bills payable to banks and commercial companies	27	87,248	26,943	–	–
Accrued liabilities and other payables	28	71,309	69,955	1,189	1,340
Amounts due to subsidiaries (non-trade)	15	–	–	94,616	77,201
Amount due to an associate (non-trade)	15	977	977	–	–
Current portion of term loan from an external party	29	350	350	–	–
Current portion of interest-bearing loans and borrowings	30	261,649	203,308	45,499	38,908
Deferred capital grant	31	241	241	–	–
Income tax payable		10,816	8,070	–	–
Dividend payable		–	315	–	–
		477,328	354,249	141,304	117,449
Net current assets/(liabilities)		285,247	292,070	(93,400)	(42,232)

	Note	Group 2010 Rmb'000	Group 2009 Rmb'000	Company 2010 Rmb'000	Company 2009 Rmb'000
Non-current liabilities					
Term loan from an external party	29	1,352	1,598	–	–
Interest-bearing loans and borrowings	30	57,500	47,100	–	47,100
Deferred capital grant	31	3,845	4,086	–	–
Deferred tax liabilities	16	5,382	2,675	–	–
		68,079	55,459	–	47,100
Net assets		616,958	568,369	251,868	275,054
Equity attributable to equity holders of the Company					
Share capital	32	244,703	244,703	244,703	244,703
Restructuring reserve	33	(44,093)	(44,093)	–	–
Reserves	34	76,965	68,597	–	–
Accumulated profits		291,644	255,791	7,165	30,351
		569,219	524,998	251,868	275,054
Non-controlling interests		47,739	43,371	–	–
Total equity		616,958	568,369	251,868	275,054

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF **CHANGES IN EQUITY**

for the year ended 31 December 2010

(Amounts expressed in Renminbi)

	Attributable to equity holders of the Company					
	Share capital	**Restructuring reserve**	**Reserves**	**Accumulated profits**	**Non-controlling interests**	**Total equity**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group						
At 1 January 2009	244,703	(44,093)	62,714	222,815	42,403	528,542
Profit for the year, representing total comprehensive income	–	–	–	38,859	231	39,090
Contributions by and distributions to owners						
Capital contribution made by non-controlling interests of a subsidiary	–	–	–	–	1,000	1,000
Acquisition of additional equity interest in an associate, making it a subsidiary	–	–	–	–	1,692	1,692
Dividends paid/payable to non-controlling interests of subsidiaries	–	–	–	–	(1,955)	(1,955)
Appropriation to reserves	–	–	5,883	(5,883)	–	–
Total transactions with owners in their capacity as owners	–	–	5,883	(5,883)	737	737
At 31 December 2009 and 1 January 2010	244,703	(44,093)	68,597	255,791	43,371	568,369
Profit for the year, representing total comprehensive income	–	–	–	66,108	4,968	71,076
Contributions by and distributions to owners						
Dividends (Note 35)	–	–	–	(21,887)	–	(21,887)
Dividends paid to non-controlling interests of a subsidiary	–	–	–	–	(600)	(600)
Appropriation to reserves	–	–	8,368	(8,368)	–	–
Total transactions with owners in their capacity as owners	–	–	8,368	(30,255)	(600)	(22,487)
At 31 December 2010	244,703	(44,093)	76,965	291,644	47,739	616,958

	Share capital	Accumulated profits/(losses)	Total equity
	Rmb'000	Rmb'000	Rmb'000
Company			
At 1 January 2009	244,703	(445)	244,258
Profit for the year, representing total comprehensive income	–	30,796	30,796
At 31 December 2009 and 1 January 2010	244,703	30,351	275,054
Loss for the year, representing total comprehensive loss	–	(1,299)	(1,299)
Distributions to owners			
Dividends (Note 35)	–	(21,887)	(21,887)
Total transactions with owners in their capacity as owners	–	(21,887)	(21,887)
At 31 December 2010	244,703	7,165	251,868

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW **STATEMENT**

for the year ended 31 December 2010

(Amounts expressed in Renminbi)

	Group 2010 Rmb'000	Group 2009 Rmb'000
Cash flows from operating activities		
Profit before tax	88,377	54,179
Adjustments:		
Amortisation of deferred capital grant	(241)	(241)
Amortisation of deferred income relating to term loan from an external party	(104)	(119)
Amortisation of land use rights	1,020	933
Depreciation of property, plant and equipment	34,037	29,464
Impairment loss on doubtful trade receivables	5,142	18,191
Write-back of impairment loss on doubtful trade receivables	(5,064)	(5,394)
Interest expense	17,157	13,235
Interest income	(551)	(478)
Loss on disposal of property, plant and equipment	994	2,695
Negative goodwill arising from acquisition of non-controlling interest in a subsidiary	–	(486)
Provision for inventory obsolescence	875	876
Write-back of provision for inventory obsolescence	(301)	(936)
Share of results of associates	1,460	(67)
Operating profit before working capital changes	142,801	111,852
Decrease/(increase) in:		
Inventories	(17,389)	(595)
Work-in-progress in excess of progress billings	(21,410)	(68,230)
Trade receivables	(73,388)	10,922
Bills receivable from banks and commercial companies	11,210	9,850
Other receivables	(15,155)	9,681
Prepayments	(35,344)	22,356
Amounts due from associates (trade)	(670)	687
Amount due from an associate (non-trade)	(707)	(375)
Amount due from a related company (trade)	–	143
Amount due from a related company (non-trade)	–	4,000
Increase/(decrease) in:		
Trade payables	648	7,336
Bills payable to banks and commercial companies	60,305	2,064
Accrued liabilities and other payables	(2,863)	(16,029)
Amount due to an associate (non-trade)	–	945
Amount due to a related company (trade)	–	(51)
Amounts due to related companies (non-trade)	–	(5,790)
Cash generated from operations	48,038	88,766
Interest expense paid	(17,053)	(13,116)
Interest income received	551	478
Income tax paid	(12,077)	(8,322)
Net cash generated from operating activities	19,459	67,806

	Note	Group 2010 Rmb'000	Group 2009 Rmb'000
Cash flows from investing activities			
Purchase of land use rights		–	(4,101)
Purchase of property, plant and equipment	A	(71,369)	(56,931)
Proceeds from disposal of property, plant and equipment		370	2,324
Net cash outflow from acquisition of a subsidiary	B	–	(5,539)
Capital contribution made by non-controlling interests of a subsidiary		–	1,000
Investment in associates		(26,856)	–
Net cash used in investing activities		(97,855)	(63,247)
Cash flows from financing activities			
Dividends paid		(21,887)	–
Dividends paid to non-controlling interests of subsidiaries		(915)	(1,640)
Repayment of loan from an external party		(350)	(350)
Proceeds from new loans and borrowings		351,456	176,753
Repayment of loans and borrowings		(282,715)	(176,290)
(Increase)/decrease in pledged bank balances		(19,251)	13,179
Net cash generated from financing activities		26,338	11,652
Net (decrease)/increase in cash and cash equivalents		(52,058)	16,211
Cash and cash equivalents at the beginning of financial year		159,145	142,934
Cash and cash equivalents at the end of financial year	24	107,087	159,145

Notes to Consolidated Cash Flow Statement

Note A: Purchase of property, plant and equipment

During the financial year ended 31 December 2010, the Group acquired property, plant and equipment with an aggregate value of approximately Rmb 78,453,000 (2009: Rmb 69,377,000) of which approximately Rmb 74,132,000 (2009: Rmb 65,669,000) was acquired by means of cash payments and of which approximately Rmb 2,763,000 (2009: Rmb 8,738,000) had been paid in prior years. The balance of approximately Rmb 4,321,000 (2009: Rmb 3,708,000) has not been paid and is recorded as part of other payables under accrued liabilities and other payables (Note 28).

Note B: Acquisition of a subsidiary

The fair values of the identifiable assets and liabilities of the subsidiary acquired for the financial year ended 31 December 2009 and the cash flow effect of the acquisition are as follows:

	Rmb'000
Net identifiable assets acquired	
Property, plant and equipment	6,184
Inventories	4,224
Trade receivables	2,699
Prepayments, deposits and other receivables	2,603
Amount due from a related company (trade)	143
Amount due from a related company (non-trade)	4,000
Cash and cash equivalents	743
Trade payables	(1,860)
Accrued liabilities and other payables	(1,470)
Amount due to a related company (trade)	(51)
Amounts due to related companies (non-trade)	(5,790)
Income tax payable	(146)
	11,279
Share of net identifiable assets acquired	6,768
Negative goodwill arising from acquisition	(486)
Total purchase consideration	6,282
Consideration paid in cash	(6,282)
Cash and cash equivalents of subsidiary	743
Net cash outflow from acquisition of subsidiary	(5,539)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

(Amounts expressed in Renminbi unless otherwise stated)

1. Corporate information

Sinopipe Holdings Limited (the "Company") was incorporated in the Republic of Singapore on 7 September 2004 under the Singapore Companies Act, Cap. 50 as a private company limited by shares under the name of "Sinopipe Holdings Pte. Ltd.". On 9 September 2005, the Company converted to a public limited company and changed its name to "Sinopipe Holdings Limited". The Company is domiciled in the Republic of Singapore and listed on the Mainboard of the Singapore Exchange Securities Trading Limited.

The principal places of business of the Group are at Jingyang Industrial Area of Fuqing City, Fujian Province 350304, the People's Republic of China (the "PRC") and 10 Anson Road, #19-09, International Plaza, Singapore 079903. The registered office of the Company is located at 1 Robinson Road, #18-00, AIA Tower, Singapore 048542.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are as shown in Note 13 to the financial statements.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The Group's principal operations are conducted in the PRC and thus the financial statements are presented in Renminbi ("Rmb") and all values are rounded to the nearest thousand (Rmb'000) except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised FRS and Interpretations of FRS ("INT FRS") that are effective for annual periods beginning on or after 1 January 2010. The adoption of these FRS and INT FRS are assessed to have no material impact on the financial results and position of the Group for the financial year ended 31 December 2010. They did however give rise to additional disclosures, including, in some cases, revisions to accounting policies. The principal effects of these changes are as follows:

<u>FRS 103 Business Combinations (revised) and FRS 27 Consolidated and Separate Financial Statements (revised)</u>

The revised FRS 103 Business Combinations and FRS 27 Consolidated and Separate Financial Statements are applicable for annual periods beginning on or after 1 July 2009. As of 1 January 2010, the Group adopted both revised standards at the same time in accordance with their transitional provisions.

2. Summary of significant accounting policies (cont'd)

2.2 Changes in accounting policies (cont'd)

FRS 103 Business Combinations (revised)

The revised FRS 103 introduces a number of changes to the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Changes in significant accounting policies resulting from the adoption of the revised FRS 103 include:

- Transaction costs would no longer be capitalised as part of the cost of acquisition but will be expensed immediately;

- Consideration contingent on future events are recognised at fair value on the acquisition date and any changes in the amount of consideration to be paid will no longer be adjusted against goodwill but recognised in the profit or loss;

- The Group elects for each acquisition of a business, to measure non-controlling interest at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, and this impacts the amount of goodwill recognised; and

- When a business is acquired in stages, the previously held equity interests in the acquiree is remeasured to fair value at the acquisition date with any corresponding gain or loss recognised in the profit or loss, and this impacts the amount of goodwill recognised.

According to its transitional provisions, the revised FRS 103 has been applied prospectively. Assets and liabilities that arose from business combinations whose acquisition dates are before 1 January 2010 are not adjusted.

FRS 27 Consolidated and Separate Financial Statements (revised)

Changes in significant accounting policies resulting from the adoption of the revised FRS 27 include:

- A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss recognised in the profit or loss;

- Losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest in the subsidiary's equity; and

- When control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in the profit or loss.

According to its transitional provisions, the revised FRS 27 has been applied prospectively, and does not impact the Group's consolidated financial statements in respect of transactions with non-controlling interests, attribution of losses to non-controlling interests and disposal of subsidiaries before 1 January 2010. The changes will affect future transactions with non-controlling interests.

2. Summary of significant accounting policies (cont'd)

2.3 Standards issued but not yet effective

The Group has not adopted the following FRS and INT FRS that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to FRS 32 Financial Instruments: Presentation – Classification of Rights Issues	1 February 2010
INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Improvements to FRS issued in 2010:	
- Transition requirements for amendments arising as a result of FRS 27 Consolidated and Separate Financial Statements	1 July 2010
- Amendments to FRS 103 Business Combinations	1 July 2010
- Amendments to FRS 1 Presentation of Financial Statements	1 January 2011
- Amendments to FRS 34 Interim Financial Reporting	1 January 2011
- Amendments to FRS 101 First-time Adoption of Financial Reporting Standards	1 January 2011
- Amendments to FRS 107 Financial Instruments: Disclosures	1 January 2011
- Amendments to INT FRS 113 Customer Loyalty Programmes	1 January 2011
Revised FRS 24 Related Party Disclosures	1 January 2011
Amendments to INT FRS 114 Prepayments of a Minimum Funding Requirement	1 January 2011
INT FRS 115 Agreements for the Construction of Real Estate	1 January 2011
Amendments to FRS 107 Financial Instruments: Disclosures – Transfers of Financial Assets	1 July 2011
Amendments to FRS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets	1 January 2012

Except for the revised FRS 24, the directors expect that the adoption of the other FRS and INT FRS above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised FRS 24 is described below.

Revised FRS 24 Related Party Disclosures

The revised FRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised FRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities. The Group is currently determining the impact of the changes to the definition of a related party has on the disclosure of related party transaction. As this is a disclosure standard, it will have no impact on the financial results and position of the Group when implemented in 2011.

2. Summary of significant accounting policies (cont'd)

2.4 Basis of consolidation

Business combinations from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in the profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in the profit or loss.

For each individual business combination, the Group elects whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in the profit or loss on the acquisition date.

Consolidation of the subsidiaries in the PRC is based on the subsidiaries' financial statements prepared in accordance with FRS. Profits or losses reflected in the financial statements prepared in accordance with FRS may differ from those reflected in the PRC statutory financial statements of the subsidiaries, prepared for PRC reporting purposes in accordance with the relevant laws and regulations. Profits available for distribution by the PRC subsidiaries are based on the amounts stated in the PRC statutory financial statements.

2. Summary of significant accounting policies (cont'd)

2.4 Basis of consolidation (cont'd)

<u>Business combinations before 1 January 2010</u>

In comparison to the above-mentioned requirements, the following applied:

Business combinations involving entities under common control were accounted for by applying the pooling of interest method. The acquisitions of these subsidiaries by the Company were pursuant to the restructuring exercise in connection with the initial public offering of shares as described in the Prospectus of the Company dated 30 November 2005.

The assets and liabilities of the combining entities were reflected at their carrying amounts reported in the consolidated financial statements. Any difference between the amount recorded as share capital issued and the amount recorded for the share capital acquired was adjusted against equity as restructuring reserve.

Apart from the above, acquisitions of other subsidiaries were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests were treated as a revaluation and recognised in equity.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that would otherwise be required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent measurements to the contingent consideration affected goodwill.

2.5 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separate from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2. Summary of significant accounting policies (cont'd)

2.6 Functional and foreign currency

(a) *Functional currency*

The management has determined the currency of the primary economic environment in which the Group entities operate i.e. functional currency, to be Rmb. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in Rmb.

(b) *Foreign currency transactions and balances*

Transactions in foreign currencies are measured in Rmb and are recorded on initial recognition in Rmb at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in the profit or loss.

2.7 Land use rights

Land use rights are initially measured at cost. The cost for a new land use right obtained via an exchange for an existing land use right held by a subsidiary of the Group is measured at fair value. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 50 years.

2.8 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.21. The costs for new buildings obtained via an exchange for existing buildings held by a subsidiary of the Group are measured at fair value. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

2. Summary of significant accounting policies (cont'd)

2.8 Property, plant and equipment (cont'd)

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis over the estimated useful life of the asset, after taking into account the estimated residual value. The estimated useful lives are as follows:

	Estimated useful life	Annual rate
Buildings	20 years	4.50%
Plant and machinery	10 years	9.00%
Office and electronic equipment	5 years	18.00%
Motor vehicles	5 years	18.00%

Construction-in-progress are not depreciated as these assets are not yet available for use.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit or loss as "other operating expenses". In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit or loss.

2. Summary of significant accounting policies (cont'd)

2.10 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.11 Associates

An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence. An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor tested individually for impairment. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is deducted from the carrying amount of the investment and is recognised as income as part of the Group's share of results of the associate in the period in which the investment is acquired.

The profit or loss reflects the share of the result of operations of the associate. Where there has been a change recognised in other comprehensive income by the associate, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of the profit or loss of its associates is shown on the face of the profit or loss after tax and non-controlling interests in the subsidiaries of associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount and recognises the amount in the profit or loss.

The financial statements of the associates are prepared as of the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in the profit or loss.

2. Summary of significant accounting policies (cont'd)

2.12 Financial assets

Initial recognition and measurement

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

(a) *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are financial assets that are not classified in any of the other categories. Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in the profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

2. Summary of significant accounting policies (cont'd)

2.13 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

(a) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amount charged to the allowance account is written off against the carrying amount of the financial assets.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the profit or loss.

(b) *Financial assets carried at cost*

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2. Summary of significant accounting policies (cont'd)

2.13 Impairment of financial assets (cont'd)

(c) *Available-for-sale financial assets*

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered, and (iii) a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from other comprehensive income and recognised in the profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in the profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of financial income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed in the profit or loss.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and unpledged bank balances.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of raw materials as determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of production overheads.

Where necessary, allowance is provided for damaged, obsolete and slow-moving items to adjust the carrying amount of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2. Summary of significant accounting policies (cont'd)

2.16 Work-in-progress

Work-in-progress is recorded at cost plus attributable profits less recognised losses, net of progress billings and allowance for foreseeable losses and is presented in the balance sheet as a current asset under "work-in-progress in excess of progress billings" or as a current liability under "progress billings in excess of work-in-progress", as applicable.

Cost includes all direct materials, labour costs and those indirect costs incurred in connection with the projects.

Provision for foreseeable loss on a contract is provided for in the year in which such losses are determined.

2.17 Construction contracts

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period, when the outcome of a construction contract can be estimated reliably. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable and contract costs are recognised as an expense in the period in which they are incurred. An expected loss on the construction contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

The stage of completion is determined by reference to survey of work performed.

Costs incurred during the financial year in connection with future activity on a contract are shown as construction contract work-in-progress on the balance sheet unless it is not probable that such contract costs are recoverable from the customers, in which case such costs are recognised as an expense immediately.

2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2. Summary of significant accounting policies (cont'd)

2.19 Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

Subsequent measurement

After initial recognition, all financial liabilities (except for financial liabilities at fair value through profit or loss) are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

2.20 Financial guarantee

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantees are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, financial guarantees are recognised as income in the profit or loss over the period of the guarantee. If it is probable that the liability will be higher than the amount initially recognised less amortisation, the liability is recorded at the higher amount with the difference charged to the profit or loss.

2.21 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. Summary of significant accounting policies (cont'd)

2.22 Employee benefits

(a) *Defined contribution plans*

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

Singapore

The Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme.

PRC

The subsidiaries incorporated and operating in the PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

(b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

2.23 Operating leases

Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.24 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates and value-added taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Sale of goods*

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer. Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

2. Summary of significant accounting policies (cont'd)

2.24 Revenue (cont'd)

(b) *Construction contracts*

The accounting policy for recognising construction contract revenue is stated in Note 2.17.

(c) *Interest income*

Interest income is recognised using the effective interest method.

(d) *Dividend income*

Dividend income is recognised when the Group's or the Company's right to receive payment is established.

(e) *Rental income*

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

(f) *Royalty income*

Royalty income is recognised in equal instalments over the term of the licence agreement on an accrual basis.

(g) *Sub-contract manufacturing income*

Sub-contract manufacturing income is recognised when sub-contracting work has been performed and goods delivered to customers.

2.25 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an income, it is recognised in the profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grant is intended to compensate. Grants related to income are presented as a credit in the profit or loss, under the heading of "Other Operating Income". Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to the profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.26 Research costs

Research costs are expensed as incurred.

2. Summary of significant accounting policies (cont'd)

2.27 Taxes

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in the profit or loss except to the extent that the tax relates to items recognised outside the profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2. Summary of significant accounting policies (cont'd)

2.27 Taxes (cont'd)

(b) *Deferred tax (cont'd)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside the profit or loss is recognised outside the profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax authority.

(c) *Value-added tax/goods and services tax*

Revenues, expenses and assets are recognised net of the amount of value-added tax ("VAT") or goods and services tax ("GST") except:

- Where the VAT/GST incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT/GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT/GST included.

The net amount of VAT/GST recoverable from, or payable to, the tax authority is included as part of receivables or payables in the balance sheet.

2.28 Segment reporting

For management purposes, the Group is organised into operating segments based on its products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 38.

2.29 Share capital and share issue expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2. Summary of significant accounting policies (cont'd)

2.30 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

  (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

  (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

3. Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) *Construction contracts*

The Group recognises contract revenue to the extent of contract costs incurred where it is probable those costs will be recoverable and based on the percentage of completion method. The stage of completion is by reference to survey of work performed.

Significant judgement is involved in determining the stage of completion, the estimated total contract revenue and the estimated total contract costs, as well as the recoverability of the contract costs incurred. Total contract revenue may include an estimation of the variation works recoverable from the customers. In making the judgement, management relies on its experience.

3. Significant accounting judgements and estimates (cont'd)

3.1 Judgements made in applying accounting policies (cont'd)

(b) *Income taxes*

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Management believes that the Group's tax position is sustainable. The carrying amount of the Group's income tax payable, deferred tax assets and deferred tax liabilities at 31 December 2010 was approximately Rmb 10,816,000, Rmb 3,253,000 and Rmb 5,382,000 (2009: Rmb 8,070,000, Rmb 3,024,000 and Rmb 2,675,000) respectively.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Construction contracts*

The stage of completion of each construction contract is assessed on a cumulative basis in each accounting year. Changes in estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract could impact the amount of revenue and expense recognised in the profit or loss in the year in which the change is made and in subsequent years. Such impact could potentially be significant.

(b) *Useful lives of plant and machinery, office and electronic equipment and motor vehicles*

Plant and machinery, office and electronic equipment and motor vehicles are depreciated on a straight-line basis over their respective estimated economic useful lives, after taking into account estimated residual value. Management estimates the useful lives of these assets to be within 5 to 10 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of these assets at Group level at 31 December 2010 was approximately Rmb 189,773,000 (2009: Rmb 169,863,000).

(c) *Provision for inventory obsolescence*

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimate. Where the expectation is different from the original estimate, such difference will impact the carrying amount of inventories and write-downs of inventories in the period in which such estimate has been changed. The carrying amount of the Group's inventories at 31 December 2010 was approximately Rmb 154,146,000 (2009: Rmb 137,331,000).

3. Significant accounting judgements and estimates (cont'd)

3.2 Key sources of estimation uncertainty (cont'd)

(d) *Impairment of loans and receivables*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar risk characteristics. The carrying amount of the Group's loans and receivables at the end of the reporting period is disclosed in Note 19 of the financial statements.

4. Revenue

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Sale of goods	837,036	715,295
Contract revenue	89,302	79,822
	926,338	795,117

5. Other operating income

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Amortisation of deferred capital grant	241	241
Amortisation of deferred income relating to term loan from an external party	104	119
Compensation income	264	57
Gain on disposal of property, plant and equipment	54	57
Gain on sale of raw materials and by-products	463	288
Government grants and subsidies (Note a)	3,387	2,689
Negative goodwill arising from acquisition of non-controlling interest in a subsidiary	–	486
Rental income	65	97
Royalty income	100	100
Sub-contract manufacturing income	–	1,478
Write-off of trade and other payables	1,530	1,505
Others	–	142
	6,208	7,259

5. Other operating income (cont'd)

Note:

(a) Government grants and subsidies received by the Group relate mainly to 科技补助基金 and 产品研发补助基金 and are given by the PRC government to encourage companies to conduct research and development to launch new products and expand their businesses etc.

6. Other operating expenses

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Donations	16	73
Inventories written off	2,879	5,947
Impairment loss on doubtful trade receivables	5,142	18,191
Write-back of impairment loss on doubtful trade receivables	(5,064)	(5,394)
Loss on disposal of property, plant and equipment	1,048	2,752
Loss on sale of raw materials and by-products	852	1,617
Provision for inventory obsolescence	875	876
Write-back of provision for inventory obsolescence	(301)	(936)
Research costs	3,913	3,826
Write-off of prepayments, deposits and other receivables	106	2,004
	9,466	28,956

7. Profit from operations

This is determined after charging/(crediting) items in Notes 5 and 6 and the following:

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Amortisation of land use rights	1,020	933
Depreciation of property, plant and equipment	34,037	29,464
Non-audit fees paid to auditors of the Company	109	104
Operating lease expenses	2,334	1,914
Staff costs *:		
- Wages, salaries and bonuses	48,091	42,888
- Pension costs	3,949	3,435
- Other staff costs	3,817	4,276
Foreign exchange (gain)/loss, net	(1,895)	438

* This includes amounts shown as remuneration of key management personnel in Note 36.

8. Financial (expense)/income

	Group 2010 Rmb'000	Group 2009 Rmb'000
Interest expense on financial liabilities carried at amortised cost		
- Interest-bearing loans and borrowings	(17,893)	(13,116)
- Term loan from an external party	(104)	(119)
	(17,997)	(13,235)
Less: Interest expense capitalised in property, plant and equipment (Note 12)	840	–
	(17,157)	(13,235)
Interest income from loans and receivables		
- Bank deposits	551	478

9. Tax expense

	Group 2010 Rmb'000	Group 2009 Rmb'000
Current year tax expense	14,823	13,651
Deferred income tax relating to origination and reversal of temporary differences (Note 16)	2,478	1,438
Tax expense	17,301	15,089

A reconciliation between the tax expense and the product of profit before income tax multiplied by the applicable corporate tax rates for the years ended 31 December 2010 and 2009 is as follows:

	Group 2010 Rmb'000	Group 2009 Rmb'000
Profit before income tax	88,377	54,179
Tax at domestic tax rates applicable to profits in the countries where the Group operates *	18,328	16,417
Adjustments:		
- Tax relief granted to subsidiaries	(2,633)	(873)
- Income not taxable	–	(5,308)
- Expenses not deductible for tax purposes	1,045	3,549
- Deferred tax assets not recognised	561	1,304
Tax expense	17,301	15,089

* The reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

9. Tax expense (cont'd)

Company and Singapore subsidiary

The corporate income tax rate applicable to the Company and Atontech (Singapore) Pte. Ltd. was reduced to 17% for the year of assessment 2010 onwards from 18% for the year of assessment 2009.

British Virgin Islands subsidiaries

There is no income tax expense for Best Connect Resources Limited, One Sea Development Ltd. and Eagle Super Associates Limited as the income of these subsidiaries are tax exempted under the provisions of the British Virgin Islands Income Tax Act.

PRC subsidiaries

Pursuant to 高新技术企业税收优惠, Fujian Aton Advanced Materials Science and Technology Co., Ltd. ("Fujian Atontech") is subjected to income tax at a concessionary rate of 15% up to year 2010 (2009: 15%). The concessionary rate of 15% applies to the branches registered under Fujian Atontech with effect from year 2009 and hence, they are also subjected to income tax at a rate of 15% up to year 2010 (2009: 15%).

Pursuant to 西部大开发政策措施, Aton Plastics (Chongqing) Co., Ltd. and Gansu Tenglong Water-saving Co., Ltd. are subjected to income tax at a concessionary rate of 15% up to year 2010 (2009: 15%).

Pursuant to 高新技术企业税收优惠, Yatong Plastic (Hubei) Co., Ltd. is subjected to income tax at a concessionary rate of 15% up to year 2011 (2009: 15%).

Sichuan Aton Plastics Co., Ltd. ("Sichuan Aton") and Jiamusi Auton Advanced Materials Technology Co., Ltd. ("Jiamusi Auton") are enjoying tax concessions pursuant to the PRC Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. These two subsidiaries are exempted from income tax for the first two profitable years and a 50% reduction in income tax payable for the next three years as follows:

Subsidiary	Tax rate	Years of exemption	Years of 50% tax relief
Sichuan Aton	30%	FY2007 and FY2008	FY2009, FY2010 and FY2011
Jiamusi Auton	30%	FY2007 and FY2008	FY2009, FY2010 and FY2011

During the 5th Session of the 10th National People's Congress of the PRC, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but not limited to, the unification of the income tax for domestic-invested and foreign-invested enterprises at 25%. Based on the implementation and administrative rules and regulations relating to the New Corporate Income Tax Law, PRC subsidiaries which have been granted tax concessions will continue to enjoy these concessions until the expiry of such concession period. Thereafter, they will be subjected to income tax at the rate of 25%.

The other PRC subsidiaries are subjected to income tax at a rate of 25% (2009: 25%).

10. Earnings per share

Basic earnings per share of the Group for the financial year ended 31 December 2010 is calculated by dividing the Group's net profit attributable to shareholders of the Company of approximately Rmb 66,108,000 (2009: Rmb 38,859,000) by the weighted average number of ordinary shares outstanding during the year of 225,094,900 (2009: 225,094,900).

The basic and diluted earnings per share of the Group are the same as there were no potential dilutive ordinary shares outstanding as at 31 December 2010 and 2009.

11. Land use rights

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Cost		
At 1 January	51,006	46,905
Additions	–	4,101
At 31 December	51,006	51,006
Accumulated amortisation		
At 1 January	4,881	3,948
Amortisation for the year	1,020	933
At 31 December	5,901	4,881
Net carrying amount	45,105	46,125
Amount to be amortised		
- not later than one year	1,020	1,020
- later than one year but not later than five years	4,080	4,080
- later than five years	40,005	41,025
	45,105	46,125

The Group has land use rights over various plots of state-owned land in the PRC where the Group's production, office, storage and dormitory facilities reside. The land use rights are not transferable and have remaining tenures of between 34 to 49 (2009: 35 to 50) years.

Assets pledged as securities

The Group's land use rights with an aggregate net carrying amount of approximately Rmb 23,176,000 (2009: Rmb 19,845,000) are pledged as securities for certain loans and borrowings (Note 30).

12. Property, plant and equipment

	Buildings Rmb'000	Plant and machinery Rmb'000	Office and electronic equipment Rmb'000	Motor vehicles Rmb'000	Construction-in-progress Rmb'000	Total Rmb'000
Group						
Cost						
At 1 January 2009	85,494	238,374	14,414	9,186	16,479	363,947
Additions	20,170	16,823	640	1,533	30,211	69,377
Arising from acquisition of a subsidiary	21	6,115	3	45	–	6,184
Disposals	(104)	(11,683)	(513)	(1,046)	(986)	(14,332)
Transferred from construction-in-progress	1,423	22,147	367	–	(23,937)	–
At 31 December 2009 and 1 January 2010	107,004	271,776	14,911	9,718	21,767	425,176
Additions	2,157	8,272	935	1,805	65,284	78,453
Disposals	(36)	(3,034)	(107)	(926)	–	(4,103)
Transferred from construction-in-progress	3,336	39,265	5	–	(42,606)	–
At 31 December 2010	112,461	316,279	15,744	10,597	44,445	499,526
Accumulated depreciation						
At 1 January 2009	12,802	100,328	5,123	5,184	–	123,437
Depreciation charge for the year	4,244	22,010	2,076	1,134	–	29,464
Disposals	–	(7,960)	(426)	(927)	–	(9,313)
At 31 December 2009 and 1 January 2010	17,046	114,378	6,773	5,391	–	143,588
Depreciation charge for the year	5,000	25,874	1,990	1,173	–	34,037
Disposals	(7)	(2,037)	(82)	(613)	–	(2,739)
At 31 December 2010	22,039	138,215	8,681	5,951	–	174,886
Net carrying amount						
At 31 December 2009	89,958	157,398	8,138	4,327	21,767	281,588
At 31 December 2010	90,422	178,064	7,063	4,646	44,445	324,640

12. Property, plant and equipment (cont'd)

	Office and electronic equipment Rmb'000
Company	
Cost	
At 1 January 2009	29
Addition	10
Disposal	(11)
At 31 December 2009, 1 January 2010 and 31 December 2010	28
Accumulated depreciation	
At 1 January 2009	15
Depreciation charge for the year	6
Disposal	(10)
At 31 December 2009 and 1 January 2010	11
Depreciation charge for the year	3
At 31 December 2010	14
Net carrying amount	
At 31 December 2009	17
At 31 December 2010	14

Assets pledged as securities

The Group's buildings and plant and machinery with an aggregate net carrying amount of approximately Rmb 38,177,000 (2009: Rmb 34,328,000) and Rmb 21,366,000 (2009: Rmb 8,817,000) respectively are pledged as securities for certain loans and borrowings (Note 30).

Construction-in-progress

Construction-in-progress relates to expenditures incurred mainly for buildings and plant and machinery in the course of construction.

Capitalisation of borrowing costs

The Group's buildings and plant and machinery in the course of construction include borrowing costs arising from loans and borrowings borrowed specifically for the purpose of their construction. For the financial year ended 31 December 2010, the borrowing costs capitalised amounted to approximately Rmb 840,000 (2009: Rmb Nil). The rate used to determine the amount of borrowing costs eligible for capitalisation was 7.49% (2009: Nil%), which is the effective interest rate of the specific loans and borrowings.

13. Investment in subsidiaries

	Company 2010 Rmb'000	Company 2009 Rmb'000
Unquoted equity shares, at cost	317,269	263,965
Addition	1,129	53,304
Carrying amount of investments	318,398	317,269

Name of subsidiary	Principal activities	Country of incorporation	Percentage of effective equity interest held by the Group 2010 %	2009 %
Held by the Company				
Best Connect Resources Limited [(1)]	Investment holding	British Virgin Islands	100.00	100.00
One Sea Development Ltd. [(1)]	Investment holding	British Virgin Islands	100.00	100.00
Eagle Super Associates Limited [(1)]	Investment holding	British Virgin Islands	100.00	100.00
Fujian Aton Advanced Materials Science and Technology Co., Ltd. [(2)]	Production and sale of plastic pipes and fittings	People's Republic of China	50.00	50.00
Yangzhou Public Industrial Co., Ltd. [(2)]	Managing and overseeing of build-transfer project	People's Republic of China	100.00	100.00
Sinopipe Guizhou Co., Ltd. [(3)]	Production and sale of plastic pipes and fittings	People's Republic of China	100.00	100.00
Held by/through subsidiaries				
Fujian Aton Advanced Materials Science and Technology Co., Ltd. [(2)]	Production and sale of plastic pipes and fittings	People's Republic of China	49.10	49.10
Chengde Aton Plastics Co., Ltd. [(4)]	Production and sale of plastic pipes and fittings	People's Republic of China	54.73	54.73
Aton Plastics (Chongqing) Co., Ltd. [(2)]	Production and sale of plastic pipes and fittings	People's Republic of China	79.28	79.28

13. Investment in subsidiaries (cont'd)

Name of subsidiary	Principal activities	Country of incorporation	Percentage of effective equity interest held by the Group 2010 %	2009 %
Held by/through subsidiaries				
Yatong Plastic (Hubei) Co., Ltd. (2)	Production and sale of plastic pipes and fittings	People's Republic of China	99.37	99.37
Inner Mongolia Aton Plastics Co., Ltd. (2)	Production and sale of plastic pipes and fittings	People's Republic of China	57.51	57.51
Yatong Plastic & Rubbers (Kaifeng) Co., Ltd. (2)	Production and sale of plastic pipes and fittings	People's Republic of China	99.33	99.33
Sichuan Aton Plastics Co., Ltd. (2)	Production and sale of plastic pipes and fittings	People's Republic of China	99.10	99.10
Jiamusi Auton Advanced Materials Technology Co., Ltd. (2)	Production and sale of plastic pipes and fittings	People's Republic of China	74.33	74.33
Hailun Aton Piping Co., Ltd. (2)	Production and sale of plastic pipes and fittings	People's Republic of China	40.88	40.88
Gansu Tenglong Water-saving Co., Ltd. (2)	Production and sale of plastic pipes and fittings	People's Republic of China	84.24	84.24
Aton (Luoyang) Water Resources Development Co., Ltd. (2)	Production and sale of plastic pipes and fittings	People's Republic of China	99.10	–
Atontech (Singapore) Pte. Ltd. (5)	Trading and distribution of plastic pipes and fittings and investment holding	Republic of Singapore	99.10	–

(1) Not required to be audited by the law of its country of incorporation

(2) Audited by Ernst & Young LLP, Hong Kong for consolidation purpose

(3) Audited by Guizhou Zhiyuan Certified Public Accountants Co., Ltd., People's Republic of China

(4) Audited by Chengde Topchina United Certified Public Accountants Co., Ltd., People's Republic of China

(5) Audited by Ernst & Young LLP, Singapore

14. Investment in associates

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Unquoted equity shares, at cost	1,314	3,814	–	–
Additions	27,231	–	26,856	–
Transfer to investment in subsidiaries	–	(2,500)	–	–
	28,545	1,314	26,856	–
Share of post acquisition reserves	(1,753)	(293)	–	–
Carrying amount of investments	26,792	1,021	26,856	–

Name of associate	Principal activities	Country of incorporation	Percentage of effective equity interest held by the Group	
			2010	**2009**
			%	%
Held by the Company				
Aton (Nanjing) Water Services Co., Ltd. (1)	Construction and operation of waste water treatment plants	People's Republic of China	49.00	–
Yunnan Aton High Molecular Materials Technology Co., Ltd. (2)	Production and sale of plastic pipes and fittings	People's Republic of China	35.00	–
Held by a subsidiary				
Liaoning Baotong Advanced Materials Technology Co., Ltd. (3)	Dormant	People's Republic of China	39.64	39.64
Fujian Industrial Plastic Technology Research and Development Co., Ltd. (4)	Research and development and provision of technical consultancy services in plastic technology sector	People's Republic of China	47.57	47.57

(1) Audited by Ernst & Young LLP, Hong Kong for consolidation purpose

(2) Audited by Yunnan Yinxin Dingli Certified Public Accountants Co., Ltd., People's Republic of China

(3) Audited by Fujian Zhongxinda Certified Public Accountants Limited, People's Republic of China

(4) Audited by Fujian Huaqi Certified Public Accountants Co., Ltd., People's Republic of China

14. Investment in associates (cont'd)

The summarised financial information of the associates, not adjusted for the proportion of ownership interest held by the Group, is as follows:

	2010	2009
	Rmb'000	Rmb'000
Assets and liabilities		
Current assets	22,707	5,894
Non-current assets	55,049	5
Total assets	77,756	5,899
Current liabilities, representing total liabilities	19,653	2,295
Results		
Revenue	54,358	–
Loss for the year	(3,117)	(291)

15. Amounts due from/to subsidiaries (non-trade), amount due from an associate (trade) and amount due from/to an associate (non-trade)

Except for an amount due from a subsidiary (non-trade) of Rmb 45,499,000 (2009: Rmb 86,008,000), the remaining amounts are unsecured, interest-free, repayable/payable within the next 12 months from the end of the reporting period and are to be settled in cash. The amount due from a subsidiary (non-trade) of Rmb 45,499,000 (2009: Rmb 86,008,000) is unsecured, bears effective interest rate at 1.5% per annum over and above the three months London Inter-Bank Offered Rate for United States dollar, has remaining maturity of three (2009: between three to 15) months from the end of the reporting period and is to be settled in cash.

Included in amounts due from subsidiaries (non-trade) is an amount of approximately Rmb 45,499,000 (2009: Rmb 86,008,000) denominated in United States dollar.

Included in amounts due to subsidiaries (non-trade) are amounts of approximately Rmb 6,666,000 and Rmb 78,029,000 (2009: Rmb 6,321,000 and Rmb 70,880,000) denominated in Singapore dollar and United States dollar respectively.

Included in amounts due from subsidiaries (non-trade) is dividend receivable amounting to Rmb Nil (2009: Rmb 34,685,000).

16. Deferred tax

Deferred income tax as at 31 December relates to the following:

	Group			
	Consolidated balance sheet		Consolidated statement of comprehensive income	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Deferred tax assets				
Impairment loss on doubtful trade receivables and provision for inventory obsolescence	3,253	3,024	229	(422)
Deferred tax liabilities				
Undistributed earnings of PRC subsidiaries	(5,382)	(2,675)	(2,707)	(1,016)
Deferred income tax expense (Note 9)			(2,478)	(1,438)

Unrecognised tax losses

The Group has tax losses of approximately Rmb 7,854,000 (2009: Rmb 7,091,000) that are available for offset against future taxable profits of certain subsidiaries in which the losses arose, for which no deferred tax asset is recognised due to the uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation in which the loss-making subsidiaries operate.

Unrecognised temporary differences relating to investment in subsidiaries

Deferred tax liabilities of approximately Rmb 4,417,000 (2009: Rmb 1,887,000) have not been recognised for taxes that would be payable on the distribution of the undistributed earnings of certain subsidiaries for the financial year ended 31 December 2010 as the Group has determined that the undistributed earnings of these subsidiaries will not be distributed in the foreseeable future.

Tax consequences of proposed dividends

There are no income tax consequences attached to the dividends to the shareholders of the Company of approximately S$Nil (2009: S$4,502,000) proposed by the Company but not recognised as a liability in the financial statements as at the end of the reporting period (Note 35).

17. Inventories

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Raw materials, at cost	47,646	45,282
Low value consumables, at cost	4,381	2,974
Low value consumables, at net realisable value	239	202
Work in progress, at cost	5,410	7,553
Finished goods, at cost	87,678	74,203
Finished goods, at net realisable value	8,792	7,117
Total inventories at lower of cost and net realisable value	154,146	137,331

The Group's inventories with an aggregate net carrying amount of approximately Rmb Nil (2009: Rmb 1,305,000) are pledged as securities for certain loans and borrowings (Note 30).

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Raw materials at net realisable value of Rmb Nil (2009: Rmb Nil) after deducting provision for inventory obsolescence	955	571
Low value consumables at net realisable value of approximately Rmb 239,000 (2009: Rmb 202,000) after deducting provision for inventory obsolescence	558	472
Finished goods at net realisable value of approximately Rmb 8,792,000 (2009: Rmb 7,117,000) after deducting provision for inventory obsolescence	2,713	2,609
	4,226	3,652

Movements in provision for inventory obsolescence during the year are as follows:

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
At beginning of year	3,652	3,759
Provision for the year	875	876
Write-back of provision	(301)	(936)
Write-off of provision	–	(47)
At end of year	4,226	3,652

For the financial year ended 31 December 2010, the Group wrote back approximately Rmb 301,000 (2009: Rmb 936,000) of inventory provision as the inventories previously provided for were sold at above their carrying amounts.

18. Work-in-progress in excess of progress billings

	Group 2010 Rmb'000	Group 2009 Rmb'000
Contract costs incurred to date	146,048	85,300
Recognised profits to date	46,016	16,280
	192,064	101,580
Less: Progress billings	(96,292)	(27,218)
	95,772	74,362

19. Loans and receivables

	Group 2010 Rmb'000	Group 2009 Rmb'000	Company 2010 Rmb'000	Company 2009 Rmb'000
Trade receivables (Note 20)	267,203	193,893	–	–
Bills receivable from banks and commercial companies (Note 21)	1,790	13,000	–	–
Other receivables (Note 22)	44,438	29,283	79	107
Amounts due from subsidiaries (non-trade) (Note 15)	–	–	45,499	120,693
Amount due from an associate (trade) (Note 15)	670	–	–	–
Amount due from an associate (non-trade) (Note 15)	707	375	–	–
Pledged bank balances (Note 24)	28,178	8,927	–	–
Cash and cash equivalents (Note 24)	107,087	159,145	2,326	1,517
Total loans and receivables	450,073	404,623	47,904	122,317

20. Trade receivables

	Group 2010 Rmb'000	Group 2009 Rmb'000
Trade receivables	297,286	223,902
Impairment loss on doubtful trade receivables	(30,083)	(30,009)
	267,203	193,893

Trade receivables are non-interest bearing and are generally on 90 to 180 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

20. Trade receivables (cont'd)

The Group's trade receivables with an aggregate net carrying amount of approximately Rmb 11,001,000 (2009: Rmb 11,863,000) are pledged as securities for certain loans and borrowings (Note 30).

Included in trade receivables of the Group is an amount of approximately Rmb 108,000 (2009: Rmb 103,000) denominated in United States dollar.

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to approximately Rmb 105,000 (2009: Rmb 657,000) that are past due at the end of the reporting period but not impaired. These trade receivables are unsecured and they are aged between one to two (2009: one to two) years as at the end of the reporting period.

Trade receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movements of the account used to record the impairment are as follows:

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Trade receivables at nominal value	30,083	30,009
Less: Impairment loss	(30,083)	(30,009)
	–	–

Movements in impairment loss on doubtful trade receivables during the year are as follows:

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
At beginning of year	30,009	24,916
Impairment loss for the year	5,142	18,191
Write-back of impairment loss	(5,064)	(5,394)
Write-off against impairment loss	(4)	(7,704)
At end of year	30,083	30,009

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in financial difficulties and/or have defaulted on payments. These trade receivables are not secured by any collateral or credit enhancement.

21. Bills receivable from banks and commercial companies

The bills receivable from banks and commercial companies have maturity of six (2009: between three to six) months, and are interest-free.

22. Other receivables

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Deposits	17,176	15,447	45	44
Advances to employees (Note a)	1,117	843	–	–
Other receivables	6,346	3,215	34	63
Value-added tax receivables	19,799	9,778	–	–
	44,438	29,283	79	107

Note:

(a) These balances are unsecured, interest-free and repayable within the next 12 months from the end of the reporting period.

Included in other receivables of the Group are amounts of approximately Rmb 45,000 and Rmb 117,000 (2009: Rmb 44,000 and Rmb 680,000) denominated in Singapore dollar and United States dollar respectively.

Included in other receivables of the Company are amounts of approximately Rmb 45,000 and Rmb 34,000 (2009: Rmb 44,000 and Rmb 63,000) denominated in Singapore dollar and United States dollar respectively.

23. Prepayments

Prepayments relate mainly to amounts prepaid for purchase of raw materials and plant and machinery.

24. Pledged bank balances and cash and cash equivalents

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cash and bank balances	135,265	168,072	2,326	1,517
Less: Pledged bank balances *	(28,178)	(8,927)	–	–
Cash and cash equivalents	107,087	159,145	2,326	1,517

* Pledged bank balances relate to amounts pledged to banks as security for banking facilities (including bills payable (Note 27)) extended to the Group.

Certain bank balances earn interest at floating rates based on daily bank deposit average effective interest rate of 0.36% (2009: 0.36%) per annum.

24. Pledged bank balances and cash and cash equivalents (cont'd)

Cash and bank balances denominated in foreign currencies as at 31 December are as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Singapore dollar	2,258	1,513	2,153	1,513
United States dollar	455	504	173	4
Hong Kong dollar	– #	–	–	–

Less than Rmb 1,000

25. Financial liabilities carried at amortised cost

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade payables (Note 26)	44,738	44,090	–	–
Bills payable to banks and commercial companies (Note 27)	87,248	26,943	–	–
Accrued liabilities and other payables (Note 28)	71,309	69,955	1,189	1,340
Amounts due to subsidiaries (non-trade) (Note 15)	–	–	94,616	77,201
Amount due to an associate (non-trade) (Note 15)	977	977	–	–
Term loan from an external party (Note 29)	1,702	1,948	–	–
Interest-bearing loans and borrowings (Note 30)	319,149	250,408	45,499	86,008
Total financial liabilities carried at amortised cost	525,123	394,321	141,304	164,549

26. Trade payables

Trade payables are non-interest bearing and are normally settled on 7 to 60 days' terms.

Included in trade payables of the Group is an amount of approximately Rmb 6,847,000 (2009: Rmb 2,732,000) denominated in United States dollar.

27. Bills payable to banks and commercial companies

The bills payable to banks and commercial companies are secured by certain bank balances of the Group amounting to approximately Rmb 21,124,000 (2009: Rmb 5,326,000), have maturity of between one to 12 (2009: one to six) months, and are interest-free.

28. Accrued liabilities and other payables

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Advances from customers	22,873	26,742	–	–
Accrued liabilities	7,990	6,073	1,189	1,340
Land use rights payable	1,901	1,901	–	–
Salary and welfare payable	6,950	6,002	–	–
Other payables (Note a)	20,818	16,575	–	–
Other taxes payable (Note b)	10,519	12,300	–	–
Deferred income	258	362	–	–
	71,309	69,955	1,189	1,340

Notes:

(a) This relates mainly to guarantee deposits received from customers and distributors and amounts payable for purchase of plant and machinery.

(b) This relates mainly to value-added tax and other operating taxes payable.

Included in accrued liabilities and other payables of the Group are amounts of approximately Rmb 1,161,000, Rmb 71,000 and Rmb Nil (2009: Rmb 1,157,000, Rmb 123,000 and Rmb 100,000) denominated in Singapore dollar, United States dollar and Hong Kong dollar respectively.

Included in accrued liabilities and other payables of the Company are amounts of approximately Rmb 1,155,000, Rmb 34,000 and Rmb Nil (2009: Rmb 1,157,000, Rmb 63,000 and Rmb 100,000) denominated in Singapore dollar, United States dollar and Hong Kong dollar respectively.

29. Term loan from an external party

The term loan from an external party is granted by Fuqing Municipal Financial Bureau to a subsidiary, Fujian Aton Advanced Materials Science and Technology Co., Ltd. for the purchase of raw materials for its projects. The loan of Rmb 3,860,000 is secured by the land use rights of a related party, Fuqing Aton Innovation Building Materials Co., Ltd. Under the terms of the loan agreement, the loan is interest-free and is repayable over a period of 11 years commencing on 30 July 2006 in 10 equal instalments of Rmb 350,000 each and a final instalment of Rmb 360,000. As at 31 December 2010, other than the five scheduled payments totalling Rmb 1,750,000, an additional payment of Rmb 150,000 had been made as requested by the Fuqing Municipal Financial Bureau. As at 31 December 2010, the remaining loan outstanding was Rmb 1,960,000. Fuqing Aton Innovation Building Materials Co., Ltd. has given an undertaking to the Group to provide the security given to the Fuqing Municipal Financial Bureau under the loan as long as it is required by the Fuqing Municipal Financial Bureau.

30. Interest-bearing loans and borrowings

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Current				
RMB loans and borrowings	216,150	164,400	–	–
USD loans and borrowings	45,499	38,908	45,499	38,908
	261,649	203,308	45,499	38,908
Non-current				
RMB loans and borrowings	57,500	–	–	–
USD loans and borrowings	–	47,100	–	47,100
	57,500	47,100	–	47,100

The current portion of long term loans and borrowings as at 31 December 2010 is Rmb 55,999,000 (2009: Rmb 53,908,000).

The loans and borrowings are guaranteed or secured as follows:

(a) Rmb 51,550,000 (2009: Rmb 50,000,000) are guaranteed by independent third parties;

(b) Rmb 95,000,000 (2009: Rmb 40,300,000) are guaranteed by a subsidiary, Fujian Aton Advanced Materials Science and Technology Co., Ltd.;

(c) Rmb 9,000,000 (2009: Rmb Nil) are guaranteed by a related party, Fuqing Aton Innovation Building Materials Co., Ltd.;

(d) Rmb 15,000,000 (2009: Rmb Nil) are guaranteed by Chen Li Hui, the Company's Executive Director and Fuqing Aton Innovation Building Materials Co., Ltd.;

(e) Rmb Nil (2009: Rmb 12,700,000) are guaranteed by Fujian Aton Advanced Materials Science and Technology Co., Ltd. and Lin Wen Hao, the general manager cum director of certain subsidiaries;

(f) Rmb 28,000,000 (2009: Rmb 10,000,000) are secured by land use rights and buildings with an aggregate net carrying amount of approximately Rmb 14,101,000 (2009: Rmb 7,197,000) and Rmb 17,326,000 (2009: Rmb 4,107,000) respectively;

(g) Rmb 7,600,000 (2009: Rmb 10,200,000) are secured by trade receivables with an aggregate net carrying amount of approximately Rmb 1,927,000 (2009: Rmb 11,863,000);

(h) Rmb 4,000,000 (2009: Rmb Nil) are secured by land use rights and buildings with an aggregate net carrying amount of approximately Rmb 2,079,000 (2009: Rmb Nil) and Rmb 3,252,000 (2009: Rmb Nil) respectively and are also guaranteed by an independent third party;

30. Interest-bearing loans and borrowings (cont'd)

(i) Rmb 5,000,000 (2009: Rmb 13,000,000) are secured by land use rights and buildings with an aggregate net carrying amount of approximately Rmb 1,725,000 (2009: Rmb 7,240,000) and Rmb 1,272,000 (2009: Rmb 12,620,000) respectively and are also guaranteed by Fujian Aton Advanced Materials Science and Technology Co., Ltd.;

(j) Rmb 18,000,000 (2009: Rmb 18,000,000) are secured by land use rights and buildings with an aggregate net carrying amount of approximately Rmb 5,271,000 (2009: Rmb 5,408,000) and Rmb 16,327,000 (2009: Rmb 17,601,000) respectively and are also guaranteed by a related party, Fujian Yatai Building Materials Co., Ltd.;

(k) Rmb 28,000,000 (2009: Rmb 8,000,000) are secured by plant and machinery with an aggregate net carrying amount of approximately Rmb 21,366,000 (2009: Rmb 7,024,000) and are also guaranteed by Fujian Aton Advanced Materials Science and Technology Co., Ltd.;

(l) Rmb Nil (2009: Rmb 900,000) are secured by plant and machinery with an aggregate net carrying amount of approximately Rmb Nil (2009: Rmb 1,793,000) and are also guaranteed by Lin Wen Hao;

(m) Rmb Nil (2009: Rmb 1,300,000) are secured by inventories with an aggregate net carrying amount of approximately Rmb Nil (2009: Rmb 1,305,000) and are also guaranteed by Chen Li Hui;

(n) Rmb 12,500,000 (2009: Rmb Nil) are secured by trade receivables with an aggregate net carrying amount of approximately Rmb 9,074,000 (2009: Rmb Nil) and are also guaranteed by Fuqing Aton Innovation Building Materials Co., Ltd.; and

(o) Rmb 45,499,000 (2009: Rmb 86,008,000) are secured by the Company and its subsidiaries', namely, Best Connect Resources Limited, One Sea Development Ltd. and Eagle Super Associates Limited collective 99.1% shareholding interest in Fujian Aton Advanced Materials Science and Technology Co., Ltd. The loans and borrowings are also guaranteed by Best Connect Resources Limited, One Sea Development Ltd. and Eagle Super Associates Limited and the lenders have the right to retain the guarantee for a period of 6 months after the loans and borrowings have been completely discharged. In addition, the Company's Executive Directors, namely Chen Li Hui and Chen Que together with the Non-Executive Director, Kusnadi Lybianto have undertaken, whether directly or indirectly, not to own less than 20% shareholding interest in the Company and to form the single largest and controlling shareholding group in the Company throughout the term of the loans and borrowings.

Loans and borrowings of Rmb 273,650,000 (2009: Rmb 164,400,000) bear effective interest rates ranging from 4.37% to 8.31% (2009: 2.99% to 8.64%) per annum and have remaining maturity of between two to 45 (2009: one to 12) months from the end of the reporting period. The remaining loans and borrowings of Rmb 45,499,000 (2009: Rmb 86,008,000) bear effective interest rates at 1.5% per annum over and above the three months London Inter-Bank Offered Rate for United States dollar and have remaining maturity of three (2009: between three to 15) months from the end of the reporting period.

31. Deferred capital grant

	Group 2010 Rmb'000	Group 2009 Rmb'000
Cost		
At 1 January and 31 December	4,809	4,809
Accumulated amortisation		
At 1 January	482	241
Amortisation for the year	241	241
At 31 December	723	482
Net carrying amount		
Current	241	241
Non-current	3,845	4,086
	4,086	4,327

This relates to a government grant received in December 2007 in relation to the exchange of existing buildings of a subsidiary, Inner Mongolia Aton Plastics Co., Ltd. for new buildings pursuant to an agreement entered into between Inner Mongolia Aton Plastics Co., Ltd. and the Science and Technology Bureau of Inner Mongolia Autonomous Region. There are no unfulfilled conditions or contingencies attached to the grant.

32. Share capital

	Group and Company			
	2010		2009	
	Number of shares '000	S$'000	Number of shares '000	S$'000
Ordinary shares issued and fully paid up				
At beginning and end of year	225,095	49,919 ^	225,095	49,919 ^

^ Equivalent to approximately Rmb 244,703,000

The ordinary shares have no par value. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

33. Restructuring reserve

The restructuring reserve represents the difference between the nominal value of shares issued by the Company in exchange for the nominal value of shares acquired in respect of the acquisition of subsidiaries accounted for under the pooling of interest method.

34. Reserves

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Capital reserve		
At beginning and end of year	356	356
Statutory surplus reserve		
At beginning of year	33,375	29,784
Appropriation from accumulated profits	4,921	3,591
At end of year	38,296	33,375
Statutory public welfare fund		
At beginning and end of year	16,729	16,729
Discretionary surplus reserve		
At beginning and end of year	3,311	3,311
Reserve fund		
At beginning of year	12,596	10,304
Appropriation from accumulated profits	3,447	2,292
At end of year	16,043	12,596
Enterprise expansion reserve		
At beginning and end of year	2,230	2,230
Total reserves	76,965	68,597

Capital reserve

Capital reserve represents the difference between the cash injected by the shareholders and the required capital to be injected. The reserve is non-distributable under PRC laws.

34. Reserves (cont'd)

Statutory surplus reserve

Pursuant to the Articles of Association of the PRC subsidiaries, these subsidiaries are required to transfer 10% of net profits, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital and allocated to shareholders in proportion to their existing shareholding, provided that the balance after such issue is not less than 25% of the registered capital. This statutory surplus reserve is not distributable in the form of cash dividend.

Statutory public welfare fund

Pursuant to the Articles of Association of the PRC subsidiaries, these subsidiaries are required to transfer 5% of net profits, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. Subsequent to 2008, in line with the changes made to the Articles of Association of the PRC subsidiaries, the subsidiaries are no longer required to make the transfer. This fund can only be utilised on capital items for the collective benefit of the employees of these subsidiaries such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

Discretionary surplus reserve

Pursuant to the Articles of Association of the PRC subsidiaries, these subsidiaries can transfer a portion of net profits, as determined in accordance with the PRC accounting rules and regulations, to the discretionary surplus reserve. The transfer to this reserve must be made before distribution of a dividend to shareholders. The utilisation of this reserve should be proposed by the board of directors and approved by the shareholders.

Reserve fund

Pursuant to the Articles of Association of the PRC subsidiaries, these subsidiaries are required to transfer a portion of net profits, as determined in accordance with the PRC accounting rules and regulations, to the reserve fund until the fund balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of a dividend to shareholders. The reserve fund is not free for distribution as dividends but it can be used to make good previous years' losses, if any, and may be capitalised as share capital.

Enterprise expansion reserve

Pursuant to the Articles of Association of the PRC subsidiaries, these subsidiaries can transfer a portion of net profits, as determined in accordance with the PRC accounting rules and regulations, to the enterprise expansion reserve. This reserve can be converted to paid-in capital and to acquire property, plant and equipment. The transfer to this reserve must be made before distribution of a dividend to shareholders. The utilisation of this reserve should be proposed by the board of directors and approved by the shareholders.

35. Dividends

	Group and Company	
	2010	**2009**
	Rmb'000	Rmb'000
Declared and paid during the year		
Dividends on ordinary shares		
- Final tax exempt one-tier dividend for 2009: S$0.012 (Rmb 0.058342 equivalent) (2008: S$Nil (Rmb Nil equivalent)) per ordinary share	13,132	–
- Special tax exempt one-tier dividend for 2009: S$0.008 (Rmb 0.038894 equivalent) (2008: S$Nil (Rmb Nil equivalent)) per ordinary share	8,755	–
	21,887	–
	S$'000	S$'000
Proposed but not recognised as a liability as at 31 December		
Dividends on ordinary shares, subject to shareholders' approval at the Annual General Meeting		
- Final tax exempt one-tier dividend for 2010: S$Nil (2009: S$0.012) per ordinary share	–	2,701
- Special tax exempt one-tier dividend for 2010: S$Nil (2009: S$0.008) per ordinary share	–	1,801
	–	4,502

36. Related party transactions

A party is considered to be related to the Group if:

(a) The party, directly or indirectly through one or more intermediaries,

(i) controls, is controlled by, or is under common control with, the Group;

(ii) has an interest in the Group that gives it significant influence over the Group; or

(iii) has joint control over the Group;

(b) The party is an associate;

(c) The party is a jointly-controlled entity;

(d) The party is a member of the key management personnel of the Group;

(e) The party is a close member of the family of any individual referred to in (a) or (d); or

(f) The party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) The party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

36. Related party transactions (cont'd)

In addition to those related party transactions disclosed elsewhere in the financial statements, the following significant transactions with related parties who are not members of the Group took place during the year on terms agreed between the parties:

(a) *Sale and purchase of goods and services*

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income				
Sale of goods to an associate	193	86	–	–
Sale of raw materials to an associate	477	–	–	–
Expense				
Purchase of raw materials from a related party	102	271	–	–
Others				
Royalty income from licence of trademark to a related party	100	100	–	–
Directors' fees	434	422	434	422

(b) *Provision of guarantees by an Executive Director of the Company and related parties*

An Executive Director of the Company, Chen Li Hui provided guarantees to secure five bank loans of Rmb 4,000,000, Rmb 3,700,000, Rmb 1,200,000, Rmb 1,400,000 and Rmb 7,400,000 granted to a subsidiary, Fujian Aton Advanced Materials Science and Technology Co., Ltd. for a term from September 2009 to September 2010, March 2010 to September 2010, April 2010 to September 2010, April 2010 to October 2010 and June 2010 to June 2011 respectively. The bank loan of Rmb 4,000,000 was partially repaid in advance during 2009 and the remaining bank loan outstanding of Rmb 1,300,000 was fully repaid in advance during 2010 and the guarantee was discharged upon repayment of the bank loan. The bank loans of Rmb 3,700,000, Rmb 1,200,000, Rmb 1,400,000 and Rmb 7,400,000 were fully repaid in advance during 2010 and the guarantees were discharged upon repayment of the bank loans.

A related party, Fujian Yatai Building Materials Co., Ltd. provided a guarantee to secure a bank loan of Rmb 18,000,000 granted to a subsidiary, Fujian Aton Advanced Materials Science and Technology Co., Ltd. for a term from June 2009 to June 2010. The bank loan was fully repaid during 2010 upon its maturity and the guarantee was discharged upon repayment of the bank loan.

A related party, Fujian Yatai Building Materials Co., Ltd. provided a guarantee to secure a bank loan of Rmb 18,000,000 granted to a subsidiary, Fujian Aton Advanced Materials Science and Technology Co., Ltd. for a term from August 2010 to August 2011. The guarantee will be discharged upon repayment of the bank loan upon maturity.

36. Related party transactions (cont'd)

(b) *Provision of guarantees by an Executive Director of the Company and related parties (cont'd)*

A related party, Fuqing Aton Innovation Building Materials Co., Ltd. provided a guarantee to secure a bank loan of Rmb 3,000,000 granted to a subsidiary, Gansu Tenglong Water-saving Co., Ltd. for a term from July 2010 to July 2011. The guarantee will be discharged upon repayment of the bank loan upon maturity.

A related party, Fuqing Aton Innovation Building Materials Co., Ltd. provided guarantees to secure three bank loans of Rmb 8,500,000, Rmb 6,000,000 and Rmb 4,000,000 granted to a subsidiary, Fujian Aton Advanced Materials Science and Technology Co., Ltd. for a term from October 2010 to April 2011, November 2010 to May 2011 and November 2010 to May 2011 respectively. The guarantees will be discharged upon repayment of the bank loans upon maturity.

An Executive Director of the Company, Chen Li Hui and a related party, Fuqing Aton Innovation Building Materials Co., Ltd. provided a guarantee to secure a bank loan of Rmb 15,000,000 granted to a subsidiary, Fujian Aton Advanced Materials Science and Technology Co., Ltd. for a term from November 2010 to October 2011. The guarantee will be discharged upon repayment of the bank loan upon maturity.

The related parties mentioned in the related party transactions above and those disclosed elsewhere in the financial statements comprise Fujian Yatai Building Materials Co., Ltd. and Fuqing Aton Innovation Building Materials Co., Ltd. who are related parties of the Group by virtue of certain key management personnel of the Company being directors and/or shareholders of these companies.

(c) *Remuneration of key management personnel*

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Wages, salaries and bonuses	1,838	1,760
Pension costs	70	66
	1,908	1,826
Comprise amounts paid/payable to:		
- Executive directors of the Company	885	863
- Other key management personnel	1,023	963
	1,908	1,826

The remuneration of key management personnel are determined by the remuneration committee having regard to the performance of individuals and market trends.

37. Commitments

(a) *Non-cancellable operating lease commitments*

The Group has operating lease commitments with respect to the rental of production, office, storage and dormitory facilities. These leases have an average tenure of between one to five years and certain of these leases have options for renewal. There are no restrictions placed upon the Group by entering into these leases.

Future minimum lease payments payable under non-cancellable operating leases as at 31 December are as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Not later than one year	1,388	1,279	231	246
Later than one year but not later than five years	1,428	1,964	–	219
Later than five years	–	120	–	–
	2,816	3,363	231	465

(b) *Capital expenditure commitments*

Capital expenditures contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Commitments in respect of contracts placed for the purchase of property, plant and equipment	35,745	15,201
Commitments in respect of the construction of buildings	4,874	–
Commitment in respect of a contract placed for the purchase of land use right	6,631	8,631
	47,250	23,832

38. Segment information

The Group is organised into operating segments based on its products and services and has three reportable operating segments as follows:

(a) The plastic pipe segment is involved in the design, manufacture, distribution and installation of plastic pipes and pipe fittings for use in various types of piping systems and networks. This reportable segment has been formed by aggregating the water supply, drainage and sewerage, telecommunication and electrical, water-saving irrigation and fuel gas operating segments which are regarded by management to exhibit similar economic characteristics.

(b) The infrastructure development segment is involved in the design and construction of infrastructures such as road network sub-contracted to third party contractors.

(c) The corporate segment is involved in Group-level corporate services.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the tables below, is measured differently from operating profit or loss in the consolidated financial statements.

Segment assets and liabilities are not disclosed as they are not regularly provided to the chief operating decision maker.

38. Segment information (cont'd)

	Plastic pipe	Infrastructure development	Corporate	Eliminations	Note	Per consolidated financial statements
	Rmb'000	Rmb'000	Rmb'000	Rmb'000		Rmb'000
Group						
2010						
Revenue						
External customers	923,189	3,149	–			926,338
Inter-segment	–	–	900	(900)	A	–
Results						
Amortisation of deferred capital grant	241	–	–			241
Amortisation of deferred income relating to term loan from an external party	104	–	–			104
Amortisation of land use rights	1,020	–	–			1,020
Depreciation of property, plant and equipment	34,029	5	3			34,037
Impairment loss on doubtful trade receivables	5,142	–	–			5,142
Write-back of impairment loss on doubtful trade receivables	5,064	–	–			5,064
Interest expense	17,157	–	1,303	(1,303)	A	17,157
Interest income	549	2	1,303	(1,303)	A	551
Inventories written off	2,879	–	–			2,879
Loss on disposal of property, plant and equipment	994	–	–			994
Provision for inventory obsolescence	875	–	–			875
Write-back of provision for inventory obsolescence	301	–	–			301
Write-off of prepayments, deposits and other receivables	106	–	–			106
Write-off of trade and other payables	1,530	–	–			1,530
Share of losses of associates	167	–	1,293			1,460
Segment profit/(loss)	90,571	427	(1,721)	(900)	A	88,377

38. Segment information (cont'd)

	Plastic pipe	Infrastructure development	Corporate	Eliminations	Note	Per consolidated financial statements
	Rmb'000	Rmb'000	Rmb'000	Rmb'000		Rmb'000
Group						
2009						
Revenue						
External customers	786,152	8,965	–			795,117
Inter-segment	–	–	53,580	(53,580)	A	–
Results						
Amortisation of deferred capital grant	241	–	–			241
Amortisation of deferred income relating to term loan from an external party	119	–	–			119
Amortisation of land use rights	933	–	–			933
Depreciation of property, plant and equipment	29,455	3	6			29,464
Impairment loss on doubtful trade receivables	18,191	–	–			18,191
Write-back of impairment loss on doubtful trade receivables	5,394	–	–			5,394
Interest expense	13,235	–	2,511	(2,511)	A	13,235
Interest income	475	3	2,511	(2,511)	A	478
Inventories written off	5,947	–	–			5,947
Loss on disposal of property, plant and equipment	2,694	–	1			2,695
Negative goodwill arising from acquisition of non-controlling interest in a subsidiary	486	–	–			486
Provision for inventory obsolescence	876	–	–			876
Write-back of provision for inventory obsolescence	936	–	–			936
Write-off of prepayments, deposits and other receivables	2,004	–	–			2,004
Write-off of trade and other payables	1,505	–	–			1,505
Share of profits of associates	67	–	–			67
Segment profit	57,726	380	49,653	(53,580)	A	54,179

38. Segment information (cont'd)

Note: Nature of eliminations to arrive at amounts reported in the consolidated financial statements is as follows:

A. Inter-segment revenue, interest expense, interest income and profit are eliminated on consolidation.

Geographical information

No geographical information is provided as the principal assets employed by the Group are located in the PRC and the Group's revenue and profits are derived primarily from customers in the PRC.

Information about major customers

For the financial years ended 31 December 2010 and 2009, the Group does not have revenue from transactions with a single customer that amounted to 10 per cent or more of the Group's revenue.

39. Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, interest rate risk, liquidity risk and foreign currency risk. The management reviews and agrees policies and procedures for the management of these risks. It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks. There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

(a) *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations.

The Group's exposure to credit risk arises primarily from trade receivables. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to minimise the Group's exposure to bad debts.

With respect to credit risk arising from other financial assets which comprise cash and bank balances and other receivables (including related party balances), the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

As at 31 December 2010, the Group has no significant concentration of credit risk except for an amount of approximately Rmb 33,173,000 (2009: Rmb Nil) due from a single customer representing 12.4% (2009: Nil%) of trade receivables.

39. Financial risk management objectives and policies (cont'd)

(b) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from its loans and borrowings. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds are placed with reputable banks.

The following tables set out the carrying amount as at 31 December, by maturity, of the Group's and the Company's financial instruments that are exposed to interest rate risk:

	Within 1 year	**1-2 years**	**2-3 years**	**More than 3 years**	**Total**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
2010					
Group					
Fixed rate					
Interest-bearing loans and borrowings	216,150	32,500	15,000	10,000	273,650
Floating rate					
Cash assets	132,330	–	–	–	132,330
Interest-bearing loans and borrowings	45,499	–	–	–	45,499
Company					
Floating rate					
Amounts due from subsidiaries (non-trade)	45,499	–	–	–	45,499
Cash assets	173	–	–	–	173
Interest-bearing loans and borrowings	45,499	–	–	–	45,499

39. Financial risk management objectives and policies (cont'd)

(b) *Interest rate risk (cont'd)*

	Within 1 year	1-2 years	2-3 years	More than 3 years	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
2009					
Group					
Fixed rate					
Interest-bearing loans and borrowings	164,400	–	–	–	164,400
Floating rate					
Cash assets	165,524	–	–	–	165,524
Interest-bearing loans and borrowings	38,908	47,100	–	–	86,008
Company					
Floating rate					
Amounts due from subsidiaries (non-trade)	38,908	47,100	–	–	86,008
Interest-bearing loans and borrowings	38,908	47,100	–	–	86,008

Interest on financial instruments subject to floating rates is repriced regularly. Interest on financial instruments at fixed rates is fixed until the maturity of the instruments. The other financial instruments of the Group and the Company that are not included in the above tables are not subject to interest rate risks.

39. Financial risk management objectives and policies (cont'd)

(b) *Interest rate risk (cont'd)*

Sensitivity analysis for interest rate risk

For the financial instruments which are at floating rates, a 10 basis points increase in interest rate at the end of the reporting period would increase (decrease) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group	**Company**
	Rmb'000	Rmb'000
31 December 2010		
Floating rate instruments	87	– #
31 December 2009		
Floating rate instruments	80	–

Less than Rmb 1,000

A 10 basis points decrease in interest rate would have had the equal but opposite effect on the above floating rate instruments to the amounts shown above, on the basis that all other variables remain constant. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

(c) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortages of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans and borrowings. In addition, in the management of liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by management to finance its operations and mitigate the effect of fluctuations in cash flows.

39. Financial risk management objectives and policies (cont'd)

(c) *Liquidity risk (cont'd)*

Analysis of financial instruments by remaining contractual maturities

The tables below summarise the maturity profile of the Group's and the Company's financial assets and liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	Within 1 year	1-5 years	Over 5 years	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
2010				
Group				
Financial assets				
Trade receivables	267,203	–	–	267,203
Bills receivable from banks and commercial companies	1,790	–	–	1,790
Other receivables	44,438	–	–	44,438
Amount due from an associate (trade)	670	–	–	670
Amount due from an associate (non-trade)	707	–	–	707
Pledged bank balances	28,178	–	–	28,178
Cash and cash equivalents	107,087	–	–	107,087
Total undiscounted financial assets	450,073	–	–	450,073
Financial liabilities				
Trade payables	44,738	–	–	44,738
Bills payable to banks and commercial companies	87,248	–	–	87,248
Accrued liabilities and other payables	71,309	–	–	71,309
Amount due to an associate (non-trade)	977	–	–	977
Term loan from an external party	350	1,400	210	1,960
Interest-bearing loans and borrowings	261,649	57,500	–	319,149
Total undiscounted financial liabilities	466,271	58,900	210	525,381
Total net undiscounted financial liabilities	(16,198)	(58,900)	(210)	(75,308)

39. Financial risk management objectives and policies (cont'd)

(c) *Liquidity risk (cont'd)*

Analysis of financial instruments by remaining contractual maturities (cont'd)

	Within 1 year Rmb'000	**1-5 years** Rmb'000	**Over 5 years** Rmb'000	**Total** Rmb'000
2009				
Group				
Financial assets				
Trade receivables	193,893	–	–	193,893
Bills receivable from banks and commercial companies	13,000	–	–	13,000
Other receivables	29,283	–	–	29,283
Amount due from an associate (non-trade)	375	–	–	375
Pledged bank balances	8,927	–	–	8,927
Cash and cash equivalents	159,145	–	–	159,145
Total undiscounted financial assets	404,623	–	–	404,623
Financial liabilities				
Trade payables	44,090	–	–	44,090
Bills payable to banks and commercial companies	26,943	–	–	26,943
Accrued liabilities and other payables	69,955	–	–	69,955
Amount due to an associate (non-trade)	977	–	–	977
Term loan from an external party	350	1,400	560	2,310
Interest-bearing loans and borrowings	203,308	47,100	–	250,408
Total undiscounted financial liabilities	345,623	48,500	560	394,683
Total net undiscounted financial assets/(liabilities)	59,000	(48,500)	(560)	9,940

39. Financial risk management objectives and policies (cont'd)

(c) *Liquidity risk (cont'd)*

Analysis of financial instruments by remaining contractual maturities (cont'd)

	Within 1 year Rmb'000	**1-5 years** Rmb'000	**Total** Rmb'000
2010			
Company			
Financial assets			
Other receivables	79	–	79
Amounts due from subsidiaries (non-trade)	45,499	–	45,499
Cash and cash equivalents	2,326	–	2,326
Total undiscounted financial assets	47,904	–	47,904
Financial liabilities			
Accrued liabilities and other payables	1,189	–	1,189
Amounts due to subsidiaries (non-trade)	94,616	–	94,616
Interest-bearing loans and borrowings	45,499	–	45,499
Total undiscounted financial liabilities	141,304	–	141,304
Total net undiscounted financial liabilities	(93,400)	–	(93,400)
2009			
Company			
Financial assets			
Other receivables	107	–	107
Amounts due from subsidiaries (non-trade)	73,593	47,100	120,693
Cash and cash equivalents	1,517	–	1,517
Total undiscounted financial assets	75,217	47,100	122,317
Financial liabilities			
Accrued liabilities and other payables	1,340	–	1,340
Amounts due to subsidiaries (non-trade)	77,201	–	77,201
Interest-bearing loans and borrowings	38,908	47,100	86,008
Total undiscounted financial liabilities	117,449	47,100	164,549
Total net undiscounted financial liabilities	(42,232)	–	(42,232)

39. Financial risk management objectives and policies (cont'd)

(d) *Foreign currency risk*

The Group operates predominately in the PRC and usually transacts in Rmb, the official currency in the PRC. Currently, the PRC government imposes control over foreign currency. Rmb is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions. Payments for imported materials or services and remittance of earnings of the subsidiaries to the Company, which is outside of the PRC, are subject to the availability of foreign currency which depends on the foreign currency denominated earnings of the enterprises, or exchanges of Rmb for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of Rmb into Singapore dollar or other currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

The Group incurs foreign currency risk on sales, purchases and loans and borrowings that are denominated in currencies other than Rmb. The currencies giving rise to this risk are primarily the Singapore dollar and United States dollar.

The Group and the Company hold cash and bank balances denominated in foreign currencies for working capital purposes. As at the end of the reporting period, such foreign currency balances (mainly in Singapore dollar and United States dollar) amount to approximately Rmb 2,713,000 and Rmb 2,326,000 (2009: Rmb 2,017,000 and Rmb 1,517,000) for the Group and the Company respectively.

There is no formal hedging policy with respect to foreign currency exposure. Exposure to foreign currency risk is monitored on an on-going basis and the Group endeavours to keep the net exposure at an acceptable level.

Sensitivity analysis for foreign currency risk

A 10% strengthening of Rmb against the following currencies at the end of the reporting period would increase (decrease) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group	**Company**
	Rmb'000	Rmb'000
31 December 2010		
Singapore dollar	(114)	562
United States dollar	5,174	7,786
Hong Kong dollar	– #	–
31 December 2009		
Singapore dollar	(40)	592
United States dollar	8,758	7,088
Hong Kong dollar	10	10

Less than Rmb 1,000

A 10% weakening of Rmb against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

40. Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Fair value of financial instrument that is carried at fair value

Management considers that the carrying amount of the non-current portion of the term loan from an external party recorded at amortised cost approximates its fair value.

Fair value of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Management has determined that the carrying amounts of cash and bank balances, trade, bills and other receivables, trade, bills and other payables, current term loan from an external party and current interest-bearing loans and borrowings, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

Fair value of financial instrument that is not carried at fair value and whose carrying amount is not reasonable approximation of fair value

The fair value of the Group's financial instrument that is not carried in the financial statements at fair value and whose carrying amount is not reasonable approximation of fair value is as follows:

	Group			
	Carrying amount		**Fair value**	
	2010	**2009**	**2010**	**2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Financial liability				
RMB interest-bearing loans and borrowings (non-current)	57,500	–	55,708	–

Determination of fair value

The fair value of the non-current portion of the RMB interest-bearing loans and borrowings is estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending and borrowing arrangements.

41. Capital management

The primary objective of the Group's capital management is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes in the Group's approach to capital management during the financial year.

As disclosed in Note 34, the PRC subsidiaries are required by the PRC accounting rules and regulations to contribute to and maintain certain types of reserves whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by all the PRC subsidiaries for the financial years ended 31 December 2010 and 2009.

41. Capital management (cont'd)

The management monitors the return on capital, which the Group defines as net profit attributable to equity holders of the Company divided by equity attributable to equity holders of the Company. The Group funds its operations and growth through a mix of equity and debts. This includes maintaining adequate lines of credit and assessing the need to raise additional equity where necessary. Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as loans and borrowings plus trade and other payables less cash and cash equivalents. Total capital is calculated as equity attributable to equity holders of the Company less the above-mentioned restricted reserves plus net debt.

	Group	
	2010	**2009**
	Rmb'000	Rmb'000
Net debt	418,036	235,176
Total capital	910,290	691,577
Gearing ratio	0.46	0.34

42. Events after the balance sheet date

On 23 February 2011, the Company increased its investment in an associate, namely Yunnan Aton High Molecular Materials Technology Co., Ltd. ("Yunnan Aton"). The Company, together with 昆明煤气(集团)控股有限公司 and 云南派柏科技有限公司, the other two shareholders of Yunnan Aton, injected an additional sum of Rmb 3.5 million, Rmb 2.5 million and Rmb 4.0 million respectively into Yunnan Aton based on the percentage of equity interest of 35%, 25% and 40% respectively. After the capital injection, the paid-up share capital of Yunnan Aton increased from Rmb 10 million to Rmb 20 million. The purpose of the capital injection is to increase the general working capital of Yunnan Aton for the operation of its business. The principal activities of Yunnan Aton are the production and sale of plastic pipes and fittings in the PRC.

On 9 March 2011, the Company, through its two 99.10% owned subsidiaries, namely Fujian Aton Advanced Materials Science and Technology Co., Ltd. ("Fujian Atontech") and Sichuan Aton Plastics Co., Ltd. ("Sichuan Aton") incorporated a subsidiary, namely Xinjiang Aton Advanced Materials Science and Technology Co., Ltd. ("Aton Xinjiang") in Changji City, Xinjiang Province, the PRC. The principal activities of Aton Xinjiang are the production and sale of plastic pipes and fittings in the PRC. The registered share capital of Aton Xinjiang is Rmb 60 million. The respective shareholdings, registered share capital and paid-up share capital of Fujian Atontech and Sichuan Aton in Aton Xinjiang are as follows:

	Percentage of shareholding	**Registered share capital**	**Paid-up share capital**
	%	Rmb'000	Rmb'000
Fujian Atontech	99	59,400	11,880
Sichuan Aton	1	600	120
	100	60,000	12,000

43. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 11 March 2011.

Description	Location	Land / Built-in Area (sqm)	Tenure / Expiry
Office, production and storage facilities	Guangrong Village Jingyang Town Fuqing City, Fujian Province People's Republic of China	41,651 (Land) 22,494 (Built-in)	50 years, expiring on 9 June 2044
Office, production and storage facilities	Guangrong Village Jingyang Town Fuqing City, Fujian Province People's Republic of China	33,123 (Land) 28,111 (Built-in)	50 years, expiring on 20 November 2044
Storage facilities	Bolan Village Jingyang Town Fuqing City, Fujian Province People's Republic of China	23,866 (Land) (No built-in)	50 years, expiring on 20 August 2053
Storage facilities	Bolan Village Jingyang Town Fuqing City, Fujian Province People's Republic of China	2,247 (Land) (No built-in)	50 years, expiring on 11 December 2053
Dormitory facilities	Jingyang Industrial Area Jingyang Town Fuqing City, Fujian Province People's Republic of China	8,067 (Land) 13,840 (Built-in)	50 years, expiring on 12 January 2057
Dormitory facilities	No. 201, 301, 302 and 402 Unit 2, Block 22 Beizutuan, Xinying District Kunming City, Yunnan Province People's Republic of China	41 (Land) 264 (Built-in)	70 years, expiring on 23 July 2080
Office, production and storage facilities	Zhangxinzhuang Village Zhangjiawan Town Tongzhou District, Beijing People's Republic of China	43,711 (Land) 6,625 (Built-in)	50 years, expiring on 30 September 2052
Office, production and storage facilities	Tiangao Road, Gaoliang Town Wanzhou District, Chongqing City People's Republic of China	26,149 (Land) 9,416 (Built-in)	50 years, expiring on 16 October 2052
Production and storage facilities	No. 8 Qingfang Road Xiantao City, Hubei Province People's Republic of China	42,572 (Land) 11,015 (Built-in)	50 years, expiring on 29 August 2052
Office, production and storage facilities	Hanjiang Road, Ganhe Office Xiantao City, Hubei Province People's Republic of China	11,075 (Land) 4,000 (Built-in)	50 years, expiring on 10 December 2056
Office, production and storage facilities	Jinshan Econ-Tech Development Zone Huhhot City, Inner Mongolia People's Republic of China	66,667 (Land) 4,919 (Built-in)	(1)

Description	Location	Land / Built-in Area (sqm)	Tenure / Expiry
Office, production and storage facilities	No. 5 Waihuan Road Kaifeng Economic Development Zone Huanglongyuan District Kaifeng County, Henan Province People's Republic of China	17,439 (Land) 3,560 (Built-in)	50 years, expiring on 2 December 2058
Office, production and storage facilities	No. 5 Waihuan Road (West Side of Litai Road) Kaifeng Economic Development Zone Huanglongyuan District Kaifeng County, Henan Province People's Republic of China	8,957 (Land) (No built-in)	50 years, expiring on 21 September 2059
Office, production and storage facilities	Jiaxi Industrial Zone Jiamusi Development Zone Heilongjiang Province People's Republic of China	24,420 (Land) 6,750 (Built-in)	50 years, expiring on 2 October 2056
Office, production and storage facilities	Yanshanhong Industrial Zone Baiyun District Guiyang City, Guizhou Province People's Republic of China	33,628 (Land) (No built-in)	50 years, expiring on 27 June 2057

Note:

(1) The transfer of land use right title for this property is currently in progress.

STATISTICS OF **SHAREHOLDINGS**
as at 8 March 2011

Issued and fully paid-up capital	:	S$49,952,854.60
Number of shares	:	225,094,900
Class of shares	:	Ordinary share
Voting rights	:	One vote per ordinary share

TREASURY SHARES

The Company does not hold any treasury shares.

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 - 999	2	0.23	984	0.00
1,000 - 10,000	316	36.20	2,134,000	0.95
10,001 - 1,000,000	534	61.17	42,749,163	18.99
1,000,001 and above	21	2.40	180,210,753	80.06
Total	873	100.00	225,094,900	100.00

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	CITIBANK NOMINEES SINGAPORE PTE LTD	61,196,980	27.19
2.	HL BANK NOMINEES (S) PTE LTD	29,280,915	13.01
3.	DBS NOMINEES PTE LTD	21,640,020	9.61
4.	DMG & PARTNERS SECURITIES PTE LTD	13,505,000	6.00
5.	OCBC SECURITIES PRIVATE LTD	12,508,000	5.56
6.	HSBC (SINGAPORE) NOMINEES PTE LTD	6,479,000	2.88
7.	REBECCA THE	5,372,000	2.39
8.	DBSN SERVICES PTE LTD	3,940,000	1.75
9.	DBS VICKERS SECURITIES (S) PTE LTD	3,367,000	1.49
10.	SINGAPORE ENTERPRISES PTE LTD	2,595,000	1.15
11.	CHOO CHEE KIONG	2,500,000	1.11
12.	CHOY PENG HA	2,360,000	1.05
13.	BNP PARIBAS SECURITIES SERVICES SINGAPORE	2,205,000	0.98
14.	BOON SUAN AIK	2,192,000	0.97
15.	YIM WING CHEONG	1,790,000	0.80
16.	QUEK CHIN SOON	1,770,000	0.79
17.	TOMORROW PTE LTD	1,700,000	0.75
18.	TTH CAPITAL PTE LTD	1,552,000	0.69
19.	DB NOMINEES (S) PTE LTD	1,465,838	0.65
20.	LAU LIAT PHEOW	1,400,000	0.62
	Total	178,818,753	79.44

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

Name of Substantial Shareholders	Direct Interest	%	Deemed Interest	%
KUSNADI LYBIANTO	29,201,660	12.97	–	–
LOYAL TEAM GROUP LIMITED (1)	–	–	40,079,895	17.81
CHEN LI HUI (1)	–	–	40,079,895	17.81
CHEN QUE (1)	–	–	40,079,895	17.81
TRIUMPUS CAPITAL LTD (2)	15,588,000	6.92	–	–
PU WEI DONG (2)	–	–	15,648,000	6.95

Notes:

(1) Mr Chen Li Hui and Mr Chen Que are deemed to be interested in the 40,079,895 shares held in trust by Citicorp Investment Bank (Singapore) Ltd for Loyal Team Group Limited by virtue of their respective shareholdings in Loyal Team Group Limited.

(2) Mr Pu Wei Dong is deemed to be interested in the 15,588,000 shares held by Triumpus Capital Ltd by virtue of his shareholding in Triumpus Capital Ltd and in the 60,000 shares held by his wife, Ms Zhu Jin Yan, as a shareholder of the Company.

PERCENTAGE OF SHAREHOLDING HELD IN THE HANDS OF PUBLIC

Based on information available to the Company as at 8 March 2011, approximately 68.34% of the issued ordinary shares of the Company are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

SINOPIPE HOLDINGS LIMITED

(Company Registration Number: 200411382N)
(Incorporated in Singapore with limited liability)

NOTICE IS HEREBY GIVEN that the Seventh Annual General Meeting of Sinopipe Holdings Limited (the "Company") will be held at Ruby Room, Level 2, Bayview Hotel Singapore, 30 Bencoolen Street, Singapore 189621 on Friday, 29 April 2011 at 9.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the financial year ended 31 December 2010 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors retiring pursuant to Articles 107 and 117 of the Company's Articles of Association:

   Mr Chen Li Hui (Retiring under Article 107) **(Resolution 2)**
   Ms Sim Siew Boi (Retiring under Article 117) **(Resolution 3)**

   Ms Sim Siew Boi will, upon re-election as a Director of the Company, remain as Chairman of the Audit and Remuneration Committees as well as a member of the Nominating Committee and will be considered independent.

3. To pass the following Ordinary Resolution pursuant to Section 153(6) of the Companies Act, Cap. 50:

   "That pursuant to Section 153(6) of the Companies Act, Cap. 50, Mr Kusnadi Lybianto be re-appointed as a Director of the Company to hold office until the next Annual General Meeting of the Company."
   [See Explanatory Note (i)]

   Mr Kusnadi Lybianto will, upon re-appointment as a Director of the Company, remain as a member of the Audit, Nominating and Remuneration Committees and will be considered non-independent.
   (Resolution 4)

4. To approve the payment of Director's fee of S$24,720 for the financial year ended 31 December 2010.
   [See Explanatory Note (ii)] **(Resolution 5)**

5. To approve the payment of Directors' fees of S$120,000 for the financial year ending 31 December 2011 to be paid half-yearly in arrears (2010: S$86,787).
   [See Explanatory Note (ii)] **(Resolution 6)**

6. To re-appoint Ernst & Young LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 7)**

7. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as an Ordinary Resolution, with or without any modifications:

8. Authority to allot and issue shares

   "That pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be empowered to allot and issue shares and convertible securities in the Company (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes and to such persons as the

Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares (including shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution) to be allotted and issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares in the capital of the Company (excluding treasury shares) at the time of the passing of this Resolution, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to all existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares in the capital of the Company (excluding treasury shares) and that such authority shall, unless revoked or varied by the Company in general meeting, continue in full force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of such convertible securities."
[See Explanatory Note (iii)] **(Resolution 8)**

By Order of the Board

Gn Jong Yuh Gwendolyn
Tan Yong Kwang
Joint Company Secretaries

Singapore
6 April 2011

Explanatory Notes:

(i) The effect of the Ordinary Resolution 4 proposed in item 3 above is to re-appoint a director who is over 70 years of age.

(ii) Subject to and contingent upon the passing of the Ordinary Resolution 5 proposed in item 4 above, the total Directors' fees for the financial year ended 31 December 2010 will be S$86,787 (2009: S$87,400), of which it includes the amount of S$62,067 approved at the Sixth Annual General Meeting of the Company.

(iii) The Ordinary Resolution 8 proposed in item 8 above, if passed, will empower the Directors from the date of this Annual General Meeting of the Company until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or when varied or revoked by the Company in general meeting, whichever is the earlier, to allot and issue shares and convertible securities in the Company. The number of shares and convertible securities that the Directors may allot and issue under this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares in the capital of the Company (excluding treasury shares) at the time of the passing of this Resolution. For issue of shares and convertible securities other than on a pro rata basis to all existing shareholders of the Company, the aggregate number of shares and convertible securities to be issued shall not exceed twenty per centum (20%) of the total number of issued shares in the capital of the Company (excluding treasury shares) at the time of the passing of this Resolution.

For the purpose of this Resolution, the percentage of issued shares (excluding treasury shares) is based on the total number of issued shares in the capital of the Company (excluding treasury shares) at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of convertible securities, new shares arising from the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

Notes:

1. A Member of the Company entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If the appointor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

3. The instrument appointing a proxy must be deposited at the registered office of the Company at 1 Robinson Road, #18-00, AIA Tower, Singapore 048542 not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting of the Company.

SINOPIPE HOLDINGS LIMITED
(Company Registration Number: 200411382N)
(Incorporated in Singapore with limited liability)

IMPORTANT:
1. For investors who have used their CPF monies to buy Sinopipe Holdings Limited's shares, this Annual Report is forwarded to them at the request of the CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as an observer must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to their CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.

PROXY FORM
(Please see notes overleaf before completing this Proxy Form)

*I/We, ______________________________ (Name)

of ______________________________ (Address)

being *a member/members of SINOPIPE HOLDINGS LIMITED (the "Company"), hereby appoint:

Name	* NRIC/Passport No.	Proportion of Shareholdings	
		Number of Shares	%
Address			

and/or (delete as appropriate)

Name	* NRIC/Passport No.	Proportion of Shareholdings	
		Number of Shares	%
Address			

or failing *him/her/them, the Chairman of the Seventh Annual General Meeting (the "Meeting") of the Company as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Meeting to be held at Ruby Room, Level 2, Bayview Hotel Singapore, 30 Bencoolen Street, Singapore 189621 on Friday, 29 April 2011 at 9.00 a.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the *proxy/proxies will vote or abstain from voting at *his/her/their discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Resolutions relating to:	For	Against
1	Directors' Report and Audited Accounts for the financial year ended 31 December 2010		
2	Re-election of Mr Chen Li Hui as a Director		
3	Re-election of Ms Sim Siew Boi as a Director		
4	Re-appointment of Mr Kusnadi Lybianto as a Director		
5	Approval of Director's fee amounting to S$24,720 for the financial year ended 31 December 2010		
6	Approval of Directors' fees amounting to S$120,000 for the financial year ending 31 December 2011 to be paid half-yearly in arrears		
7	Re-appointment of Ernst & Young LLP as Auditors and authorisation of the Directors to fix their remuneration		
8	Authority to allot and issue new shares		

Dated this __________ day of ________________ 2011

Total number of Shares in:	Number of Shares
(a) CDP Register	
(b) Register of Members	

____
Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

* Delete accordingly.

PROXY FORM

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member entitled to attend and vote at the Meeting is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 1 Robinson Road, #18-00, AIA Tower, Singapore 048542 not less than 48 hours before the time appointed for the Meeting.

5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his/her name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

SINOPIPE HOLDINGS LIMITED
中国管业控股有限公司

Company Registration Number: 200411382N

Principal Places of Business:
Jingyang Industrial Area of Fuqing City
Fujian Province 350304
The People's Republic of China
Telephone: (86) 591 8531 5915
Facsimile: (86) 591 8531 1542

10 Anson Road #19-09
International Plaza
Singapore 079903
Telephone: (65) 6223 8230
Facsimile: (65) 6223 8279

Website: www.sinopipe.com.sg

cre8 Tel: (65) 63278398