



Growing
Stakeholders'
Value

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Growing
Stakeholders'
Value

With Purpose

GROWING STAKEHOLDERS' VALUE WITH PURPOSE

Good business leadership begins with bold visions and clear strategies. At SP Chemicals, we are inspired by a simple but bold vision: To be a top-tier company and cost leader in the production of chemical raw materials.

We strive to continually improve our competitiveness, performance and profitability, and in turn provide value to our shareholders.

To achieve that vision, we put in place measures to ensure that our products are of superior quality and give customers the best value.

We strive to continually improve our competitiveness, performance and profitability, and in turn provide value to our shareholders.

We believe in being a law-abiding corporate citizen, as well as a responsible organization by supporting the community in the areas of development, education, charity, environmental protection and health. We endeavor to foster good relations within the community that we operate in.

We pride ourselves in offering our staff a safe and clean work environment, with fair wages and working hours. We have a culture where staff is motivated to perform at their best and share in the success of the Company.

CORPORATE PROFILE

Our Focus on value

At SP Chemicals, delivering unparalleled value is our primary focus. Year in and year out, our 1088 employees work with focused determination to bring value to our customers.

As the largest chemical raw materials and only chlor-alkali producer in China Fine Chemical Industry Taixing Park, a dedicated economic development zone designated as a fine chemicals hub in the Jiangsu province, we enjoy some valuable advantages. We are naturally chosen to be the principal supplier to existing and potential downstream producers in the industry park. Most of our PRC customers are located within a 300-km radius from our production plant – a great advantage in terms of lower transportation costs and reliable delivery.

Since 2004, we have broadened our customer base to span the USA, Belgium, Japan, Korea and Taiwan. SP Chemicals counts established multinational corporations and state-owned enterprises as our customers, including Basic Chemical Solutions, L.L.C., BASF, The Dow Chemical Company, Tomen Corporation Ltd, Flexsys N.V., Akzo Nobel Chemicals MCA (Taixing) Co, Ltd (part of the Dutch Fortune 500 company Akzo Nobel N.V.), and Yantai Wanhua Polyurethanes Co., Ltd, the largest domestic MDI producer in the PRC.

We take great pride in delivering superior quality products using an advanced ion-membrane production process. Our Taixing production facilities is certified by Lloyd's Register Quality Assurance to ISO 9001:2000 and ISO 14001:1996, the internationally recognized standard for environmental management systems.

2007 was another successful year. We have successfully completed a series of strategic initiatives as part of our Medium Term Strategic Business Plan ("MTSBP"). These include the doubling of our chlor-alkali production capacity, establishment of a 120 megawatts ("MW") Co-generation plant, and the creation of new capabilities for the production of Vinyl Chloride Monomer ("VCM").

SP Chemicals' single-mindedness in expanding its production capacities steadily over the years has spurred the Group to become the fourth largest ion-membrane chlor-alkali producer in the PRC, and the fifth largest aniline producer in the PRC as at 31 March 2007.

We have not wasted one moment and our evolution has been rapid. To drive our growth even further and faster, we have launched our Medium Term Strategic Business Plan II ("MTSBP II") which involves further expansion of our Group's chlor-alkali and aniline production capacities; creation of a new product, styrene monomer; and the embarking of feasibility studies of a petrochemical project in Vietnam. Our MTSBP II is designed to maximize the benefits of our scale, allowing us to grow and deliver outstanding value to all our stakeholders, including our customers, our employees, our communities and our shareholders.

As always, we're focused on Growing Stakeholders' Value.

**Growing
Stakeholders'
Value**

*As always, we're
focused on Growing
Stakeholders' value*

PRODUCT OVERVIEW

aniline

Rubber processing chemicals, dyes, pigments, pharmaceuticals, MDI (used in the production of polyurethane)



caustic soda

Pulp and paper, textiles, soap and washing detergents, plastic polymers, rubber, dyes, pharmaceuticals, petrol purification, metallurgy



chlorine

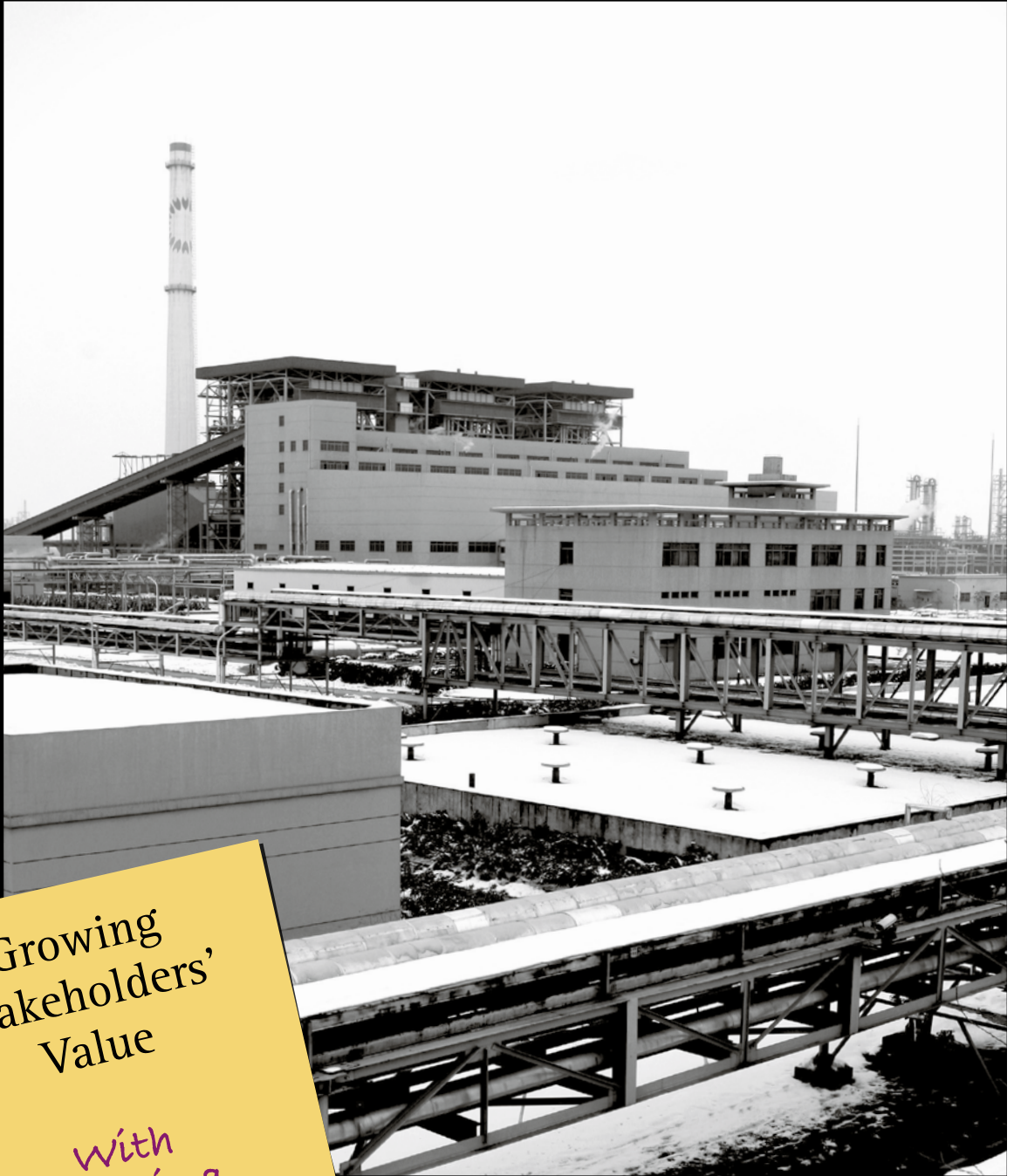
Water purification, sanitation of industrial waste, sewage and swimming pools, bleaching of pulp and textiles, EDC & VCM, other organic compounds and phosgene gas



vinyl chloride monomer

PVC, used in varied industries such as construction, packaging, consumer goods, automotive and for medical use





Growing
Stakeholders'
Value

*With
stamina*

CHAIRMAN'S STATEMENT

Dear shareholders and stakeholders,

As I write this message, much of China including our Taixing plant, is garbed in a winter wonderland, in one of the coldest winters reported in 50 years! Even as over 20 other plants in the same industrial park were shut down, due to power outages, it is gratifying to know that our own plant is still humming away, thanks to our own Co-gen plant!

Thank you for taking the time to read this AR 2007, the fifth since our IPO in 2003. In our AR 2003, I wrote about our successful IPO, our PP3 expansion and a record year of performance. For AR 2004, it was about another record year, our financial partners and our ambitious Medium-Term Strategic Biz Plan, which included PP4. AR 2005 saw a softer touch. It portrayed our corporate ethos, the basic elements of our business (salt and electricity) and sustainability. We had another record year and picked up several awards, along the way. In our last AR 2006, I then wrote about yet another record breaking year, our human capital, and sustaining performance and scaling new heights. I hope this summary will give you a sketch of our corporate 'Journeys to the East'.

We turn the spotlight on your Board's continuous efforts to grow the Company and build shareholders' value.

What now, for AR 2007? We have chosen to focus squarely on our **fundamentals**. We turn the spotlight on your Board's continuous efforts to grow the Company and build shareholders' value. So for the first time, we feature an inaugural message from our CFO, Wira Tjendana. He will talk to you about the sound fundamentals of the Group. Something that bears scrutiny, especially as markets are so volatile and so many stocks are driven by sentiments, rather than fundamentals.

Our CEO, Chan Hian Siang, brings you yet another glowing report card, on our performance for FY2007. Despite a challenging environment and finicky product prices, Management has turned in credible results, virtually equaling that of FY2006. Do read his detailed review, commentary, vision for the future and the rationale for Vietnam, in particular.

What I wish to focus on, is **strategic planning**. Now that we have fulfilled our first Medium-Term Strategic Biz Plan within three years and have begun to reap its fruits, what next? A **Medium-Term Strategic Biz Plan II**, of course! Components of this Plan have already been rolled out. In short, it calls for PP5, a further 50% increase of our core capacity; the building of a Styrene Monomer Plant; and Vietnam! Even though we are still in the two year detailed feasibility studies stage, our plans for Vietnam are taking some people's breath away! It involves the development of a huge industrial park and the building of a Naphtha Cracker Plant, to produce Ethylene, for our China plant.

This mammoth plan is being approached with the greatest of caution. But its *raison detête* is compelling. SP Chemicals cannot afford to stand still. We have to integrate vertically, both up and down our value chain, and expand our geographical footprint. It will take a lot to make this plan come true. But its success will propel us into a different league and transform SP Chemicals into a regional integrated petro-chemicals manufacturer!

We have to integrate vertically, both up and down our value chain, and expand our geographical footprint.

On behalf of my fellow Directors and Management, I thank you for all your trust and confidence, and our staff for their hard work. We will continue to major on fundamentals and carefully venture into new realms!

Meanwhile, Shareholders can look forward to a first and final Dividend of 7.2 RMB cents per share, subject to your approval, at the coming AGM on 3 April 2008. Plus a one for two Bonus share, already approved by the SGX-ST.

I look forward to seeing you there.

Sincerely,



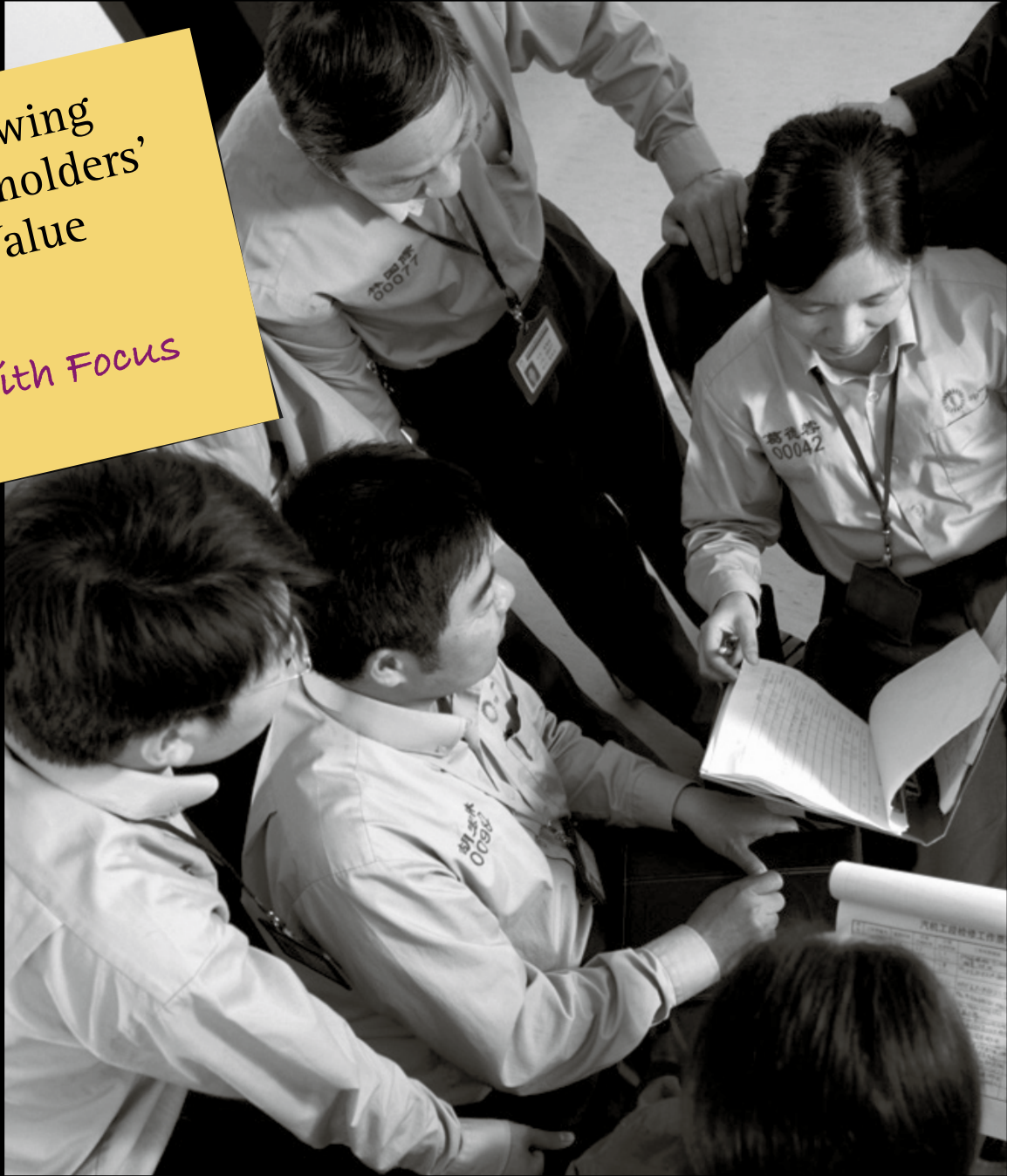
Francis Lee
Chairman
SP Chemicals Ltd.



Chairman, Francis Lee

Growing
Stakeholders'
Value

With Focus



CEO'S STATEMENT

Dear shareholders and stakeholders,

Overall Review of FY2007

2007 was an important year, one that was filled with both significant accomplishments and challenges. Despite facing harsh challenges from intense market competition and a cyclical market, I am gratified by the results we have achieved. We have successfully maintained our solid fundamentals, benefiting from the effective implementation of our ambitious Medium-Term Strategic Business Plan ("MTSBP") pursued since 2004.

For the full year, we reported record revenue of RMB1,635.9 million, up 9% from FY2006, boosted by higher production output from a full year impact of our Production Phase Four ("PP4") capacity expansion which was largely absorbed by the market.

For the full year, we reported record revenue of RMB1,635.9 million, up 9% from FY2006, boosted by higher production output from a full year impact of our Production Phase Four ("PP4") capacity expansion which was largely absorbed by the market.

However, generally weak product prices and high raw material prices, particularly in the fourth quarter, caused full year net profit of RMB263.5 million, to be marginally lower as compared to the previous year. The earnings was also impacted, in part, by losses recorded for VCM due to start-up difficulties encountered with the production process.

Review of Performance by Products

2007 started off with strong market condition, largely due to robust chemical product prices. But throughout the second half of the year, it had been a challenge for our chemical prices to keep pace with the rapidly increasing petroleum derivative raw material costs.

- Amongst the core products, aniline remained the largest contributor to Group revenue, accounting for 45% or RMB726 million. The substantial increase in supply of aniline in the PRC market brought on by capacity expansions by other manufacturers, caused a 4% decrease in average selling price.

Compounded with a significant 23% increase in average prices of aniline's main raw material, benzene, gross profit for aniline decreased 77% to RMB38 million.

- Caustic soda was the largest contributor to Group gross profits, accounting for 75% at RMB289 million. Revenue and gross profit contribution from caustic soda increased by 30% and 46%, respectively, due to a 5% increase in average selling prices.

Overseas demand for our products remained robust, and we continued to export aniline and caustic soda to countries such as the USA, Canada, Japan, Korea and Taiwan. These exports accounted for 21% of the Group's total revenue.

- Chlorine registered a 40% increase in revenue to RMB302 million due to the increase in annual production capacities and economies of scale. The average selling price for chlorine increased 9%, compared to the previous year, resulting in a significant 133% increase in gross profit to RMB64 million.
- For the "Other Products" segment, revenue decreased by 62% to RMB63 million, and a gross loss of RMB6 million was incurred due to the start-up of the VCM plant. Since October 2007, SP Chemicals had phased out the production of chloro-benzene and nitro-chlorobenzene.

Overseas demand for our products remained robust, and we continued to export aniline and caustic soda to countries such as the USA, Canada, Japan, Korea and Taiwan. These exports accounted for 21% of the Group's total revenue.

Building a company that lasts

I want to take this opportunity to clarify and explain our business model, and to show how that is driving our actions.

- **To be a cost leader in an industry where prices of chemicals are determined by the market**

The key to sustaining our business is to continually achieve lower product costs than our competitors.

To achieve this, our premise is simple: by controlling our costs more effectively than our competitors, it allows us the flexibility to adjust our product pricing. So despite the volatility of our industry cycles, we are positioned to ride on industry upturns to achieve exceptional profits, while maintaining a decent level of profitability even in downcycles.

The strategic objective of our capacity expansions has been to achieve competitive advantage with greater economies of scale and more efficient management of resources.

- **To build a strong competitive position through greater economies of scale and market share gains via capacity expansion**

Another central tenet of our business model is that size does matter. The truth is there is a limit to what can be achieved through cost reduction and efficiency measures. To reach our longer term growth targets, we must aim for critical mass to generate greater sales volumes.

Over the years, one of the main reasons for the ability of your Group to grow from strength to strength can be attributed to our continuous effort in generating growth through capacity expansions. This requires a lot of planning ahead and putting in the right infrastructure that provides the flexibility and scalability to expand easily.

The strategic objective of our capacity expansions has been to achieve competitive advantage with greater economies of scale and more efficient management of resources. With each expansion, we raise our game and further enhance our competitive edge.

- **Enhancing the underlying worth and longevity of SP Chemicals through forward and backward integration**

The growth spectrum of your Company will not only cover capacity additions, but will also focus on backward and forward integration along the entire chemical raw materials value chain, commencing upstream with electricity generation and culminating downstream into chemical products for sales to customers.

In anticipation of the demand for electricity needed to support our growing operations in the PRC, we have, since May 2006 started operating our own Co-generation plant. With many parts of the PRC experiencing power shortages due to unprecedented levels of growth in the country, our strategic entry into electricity production was driven by the objective of ensuring electricity security and deriving economy and stability of pricing. The operation of our own Co-generation plant has afforded us with tremendous cost saving.

The growth spectrum of your Company will not only cover capacity additions, but will also focus on backward and forward integration along the entire chemical raw materials value chain, commencing upstream with electricity generation and culminating downstream into chemical products for sales to customers.

Likewise, our proposed Vietnam Petrochemical Project, which centres on the investment in and development of a modern and integrated industrial park of 1,300 hectares, to be dedicated to the petrochemical industry, in Hoa Tam, Phu Yen Province, Vietnam, as well as the investment in the construction, and operation, of a naphtha cracking complex with an estimated production capacity of 800,000 tonnes of ethylene per annum in the said industrial park, represents your Company's road-map, to sustainable growth and profitability, into the future.

In particular, the proposed naphtha cracking complex is in line with SP Chemicals' business strategy to expand upstream, so as to ensure a reliable supply of raw materials and to cater for future expansion of its core production of chlor-alkali products and related downstream products, in the PRC.



Looking Ahead

As we look to fiscal 2008, we expect costs of certain raw materials, like ethylene, benzene and coal, to remain persistently high, while product prices, particularly for aniline, to remain fairly weak.

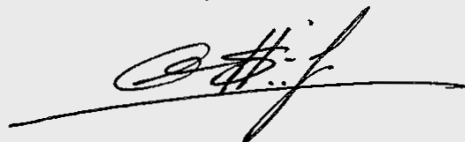
To meet the challenges, we will be working hard towards achieving break-even for our VCM investment. The initial production encountered some teething problems due to our inexperience in handling this new product. Efforts to fine-tune and adjust the production equipment and processes are ongoing. We are carefully managing these issues and fully expect to integrate VCM into our chlor-alkali business.

We are also moving forward with our planned RMB1.1 billion investment in facilities for the production of styrene monomer, an intermediate raw chemical used in making polystyrene plastics, protective coatings, polyesters and resins. Construction of our new styrene monomer production facilities is expected to commence in third quarter of FY2008, with completion targeted for the fourth quarter FY2009. Trial production is targeted to take place by first quarter FY2010.

As for the Vietnam project, we will continue to look for strategic joint venture partners, and try to secure the investment licence before the end of FY2008.

On behalf of our Board of Directors and senior management, I would like to offer my appreciation to our staff, an exceptional group of people who have made this company their own and, consequently, made it stronger. They join me in expressing gratitude to you, our stakeholders and shareholders, for your continued confidence in us and in pledging your commitment to realize our growth potential in the days ahead.

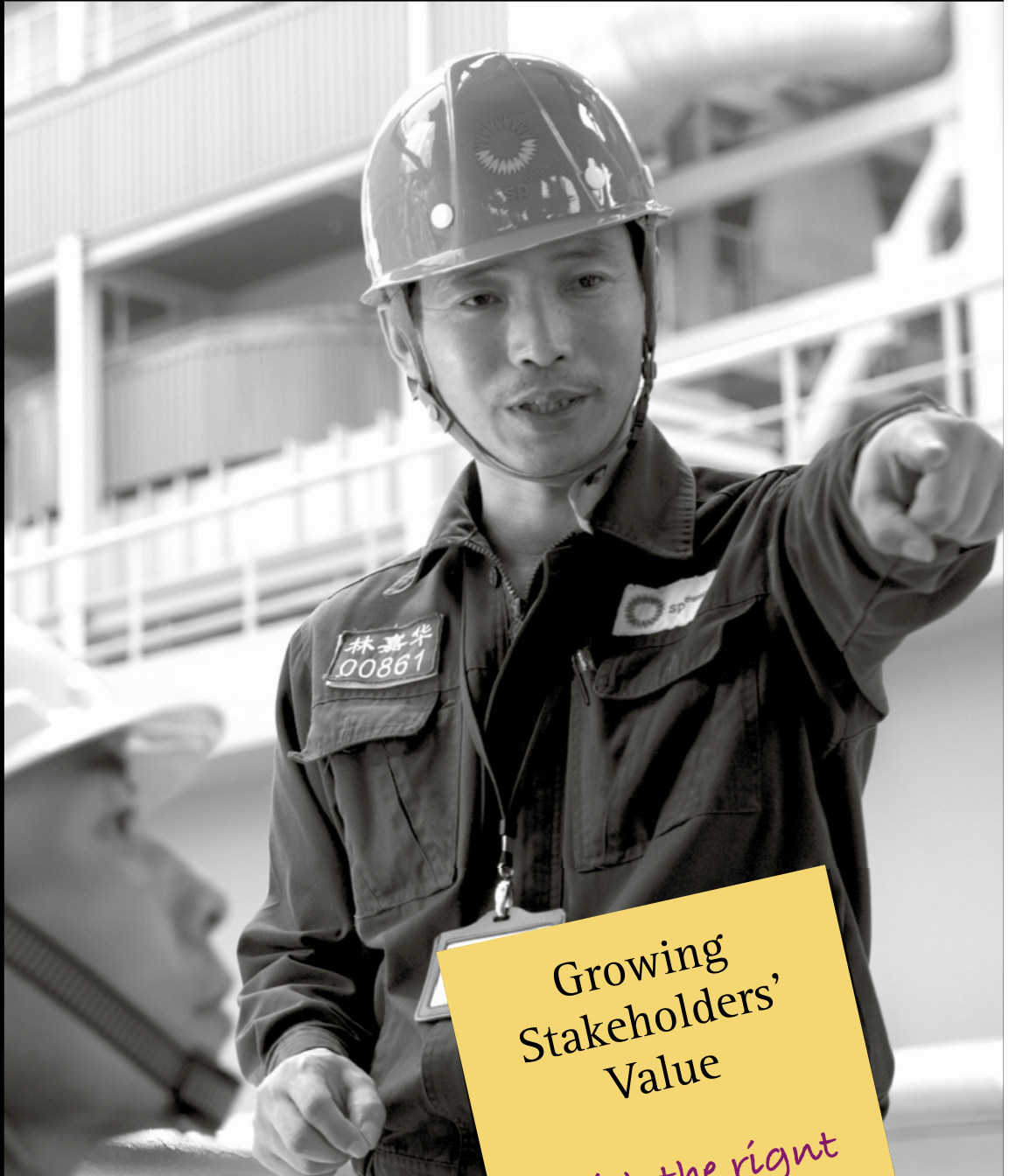
Sincerely,

A handwritten signature in black ink, appearing to read 'Chan Hian Siang', with a long horizontal line extending to the left.

Chan Hian Siang
Chief Executive Officer
SP Chemicals Ltd.



Chief Executive Officer, Chan Hian Siang



Growing
Stakeholders'
Value

*With the right
direction*

CFO'S STATEMENT

Dear shareholders and stakeholders,

In the wake of the global stock markets debacle in January 2008, the fear factor has gripped the world markets. All stocks were marked-down indiscriminately, and SP Chemicals' stock was no exception.

Ironically, this could also be the perfect timing for buying good companies, at bargain-basement prices. One of the hallmarks of successful investing is to pay a fair price for a partial ownership of a company (i) operating in an industry with a reasonably favorable long-term outlook, (ii) run by a competent management, and (iii) with a long track-record of earnings.

But what's a fair price?

We're not academics. We're market practitioners on Main Street, not Wall Street. But our view is that, by any measure, SP Chemicals' share is probably now trading at below fair value. The Company's P/E Ratio and Price to Cash Flows, are now at their lowest in five years.

But our view is that, by any measures, SP Chemicals' share is probably now trading at below fair value.

The stock market and share prices, tend to have a life of its own. Depending on the collective sentiment of the participants, the market can swing from extreme pessimism to irrational exuberance.

As such, we think that a company's intrinsic value, rather than its share price, is probably a better measure of the true worth of a company. By definition, intrinsic value would include intangible values of a company, such as its competitiveness and goodwill. In the hallowed halls of academia, intrinsic value is defined as the sum of the discounted future cash flows, that can be generated from the company's operating assets. And this is where it gets complicated.

The problem is, no one can accurately predict how much, and when, these series of cash flows would be generated, and what would be the appropriate risk-free rate to use, to discount these cash flows. If you have the answers to these questions, then you would be able to accurately approximate how much any company is worth.

Therefore, what may be more useful is to track the increase in intrinsic value of a company, over the years. The growth in a company's net worth (or net book value) would be a good proxy, of its increase in intrinsic value.

At the same time, we should also compare the company's growth in intrinsic value, to a relevant market benchmark, such as the STI index. While we do not have a precise value of what SP Chemicals should be worth, we know that our intrinsic value is higher than its net book value ("NBV").

In the meantime, we should not be overly concerned with the recent volatility of our stock prices. We subscribe to the often quoted passage from Graham and Dodd's **Security Analysis** that "the market is a voting machine." In the long haul, we think that the market is a "weighing machine."

Allow me to give a rundown of our increasing net worth, over the years:

Company's Performance vs the STI Index

| | NBV per share * (RMB cents) | Annual% change | STI Index | Annual% change | Relative Performance |
|--------------------------------|--------------------------------|-------------------|-----------|-------------------|-------------------------|
| 2000 | 58 | | 1926 | | |
| 2001 | 67 | 16% | 1623 | -16% | 32% |
| 2002 | 79 | 18% | 1341 | -17% | 35% |
| 2003** | 115 | 46% | 1764 | 32% | 14% |
| 2004 | 145 | 26% | 2066 | 17% | 9% |
| 2005 | 192 | 32% | 2347 | 13% | 19% |
| 2006 | 251 | 31% | 2985 | 27% | 4% |
| 2007 | 313 | 25% | 3482 | 17% | 8% |
| Ave. Growth (2003 ~ 07) | | 29% | | 19% | 10% |
| Ave. Growth (2000 ~ 07) | | 27% | | 9% | 18% |

* based on latest outstanding 366 million shares, after adjusting for bonus shares

** went IPO in August 2003



Since 2000, the increase in our NBV, has outperformed the STI Index every year. Since our IPO in 2003, we have increased our shareholders' equity at a compound annual rate of 29%, as compared to 19% for the STI Index, over the same period. Our public shareholders would also remember that in each year since our IPO, the company has also distributed cash dividends amounting to a yearly dividend yield of about 2%.

While we have clocked up sterling growth and return on investments, over the last decade, we do not anticipate growing at the same rate over the next decade, simply because we have more capital to work with. As at 31 December 2007, shareholders' equity stood at US\$158 million, as compared to US\$28 million when we first built our Phase One caustic soda plant in 1998.

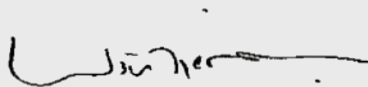
At the same time, we have tremendous downwind over the last decade because of the rapid growth of manufacturing activities in China, especially in the coastal areas, where our factory is located. We expect China to grow at a more moderate pace, over the next decade.

In the meantime, we will continue to work hard, each day to run a tightship, and we shall remain focused on implementing our next Medium-Term Strategic Business Plan, so as to build an even stronger foundation for growth.

On behalf of every one of us at SP Chemicals, we thank you for your commitment to our future.

See you at the AGM!

Sincerely,



Wira Tjendana
Chief Financial Officer
SP Chemicals Ltd.

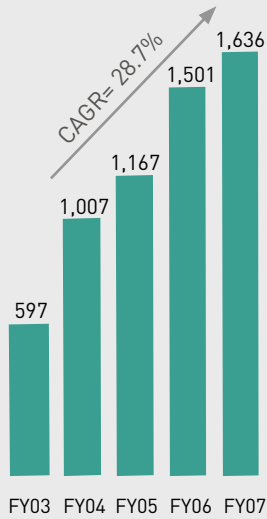


Chief Financial Officer, Wira Tjendana

FIVE YEAR FINANCIAL HIGHLIGHTS

Revenue

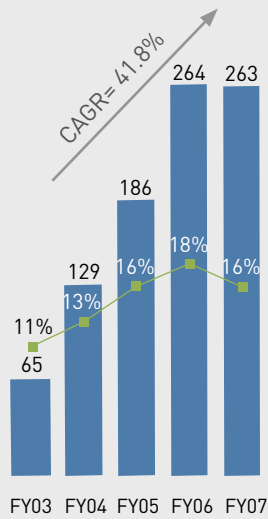
RMB million



Net Profit

RMB million

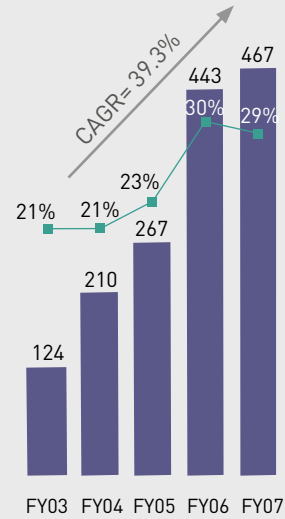
■ Net Profit Margin %
■ Net Profit



Operating EBITDA

RMB million

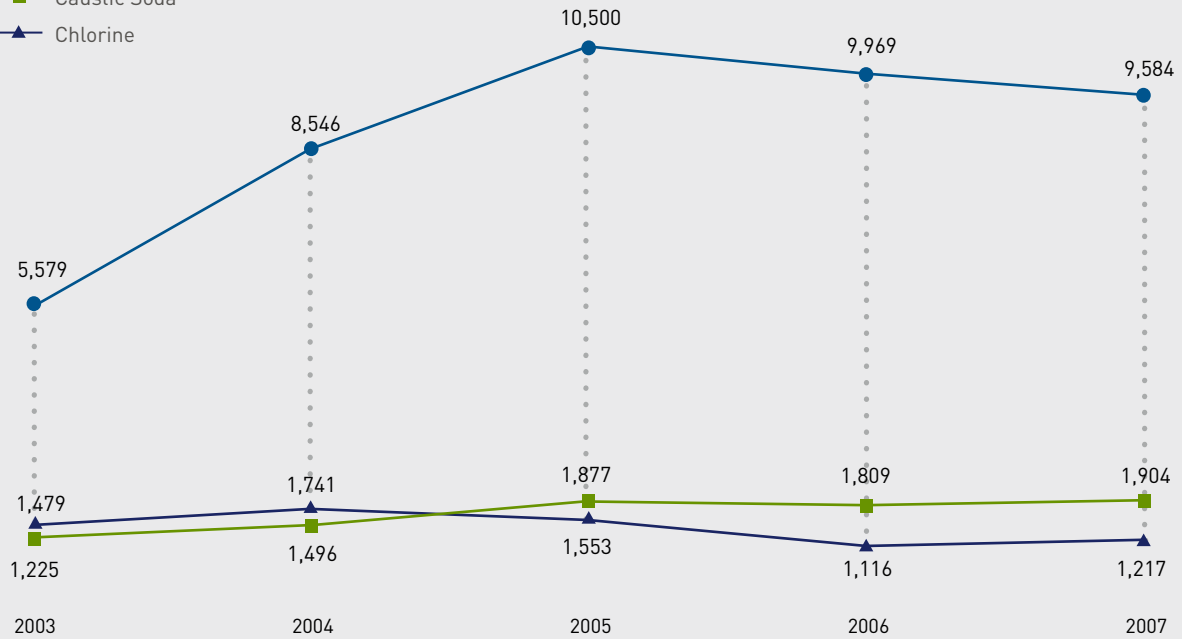
■ Operating EBITDA Margin %
■ Operating EBITDA



Average Product Prices

RMB per tonne

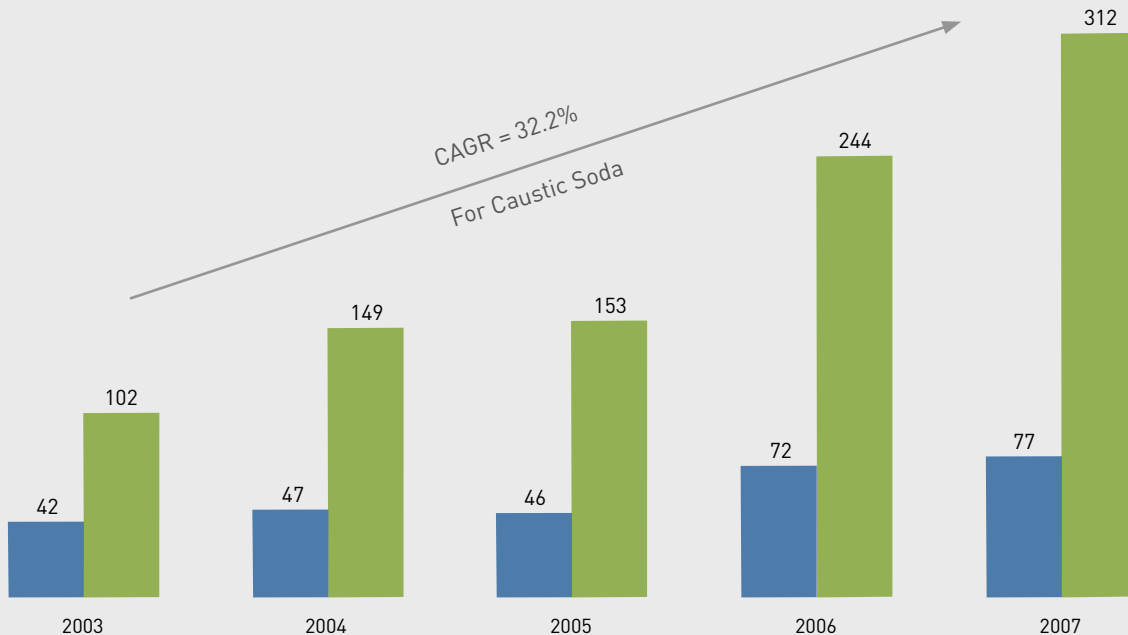
● Aniline
■ Caustic Soda
▲ Chlorine



Production Output

'000 tonnes

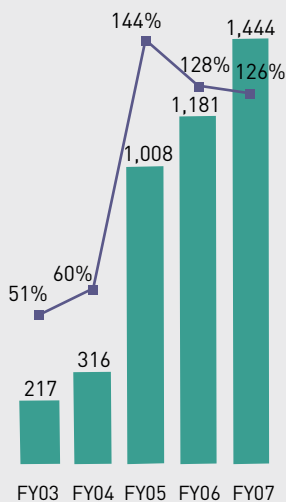
- Aniline
- Caustic Soda



Net Debt*

RMB million

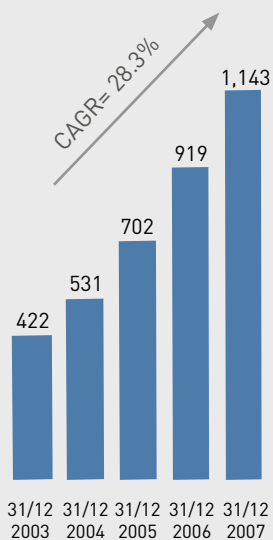
- Net Debt / Equity
- Net Debt



* Total liabilities less cash

Shareholders' Equity

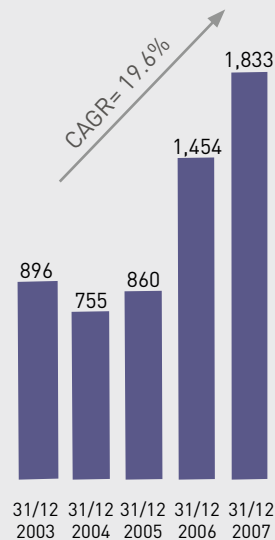
RMB million



As at

Market Capitalization

RMB million



As at

FIVE YEAR FINANCIAL SUMMARY (RMB million, except per share data)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|------------------------------|------|-------|-------|-------|-------|
| Revenue | 597 | 1,007 | 1,167 | 1,501 | 1,636 |
| Profit | | | | | |
| Gross | 105 | 195 | 263 | 392 | 385 |
| Operating EBITDA | 124 | 210 | 267 | 443 | 467 |
| Before tax | 68 | 141 | 205 | 287 | 272 |
| Attributable to shareholders | 65 | 129 | 186 | 264 | 263 |

| Financial Ratios | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|------|------|------|------|------|
| Percent of sales | | | | | |
| Gross Profit | 18% | 19% | 23% | 26% | 24% |
| Operating EBITDA | 21% | 21% | 23% | 30% | 29% |
| Profit before tax | 11% | 14% | 18% | 19% | 17% |
| Net profit attributable to shareholders | 11% | 13% | 16% | 18% | 16% |
| | | | | | |
| Return on beginning shareholders' equity* | 22% | 31% | 35% | 38% | 29% |
| Total liabilities to shareholders' equity ratio | 65% | 97% | 152% | 136% | 138% |
| Interest coverage ratio (times) | 16 | 21 | 14 | 10 | 6 |
| Trade receivables turnover (days) | 8 | 17 | 6 | 9 | 5 |
| Inventory turnover (days) | 16 | 31 | 33 | 37 | 77 |

* Based on shareholders' equity at beginning of each year

| Financial Position at Year-End | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|------|-------|-------|-------|-------|
| Property, plant and equipment | 435 | 496 | 1,344 | 1,718 | 1,984 |
| Total assets at year-end | 695 | 1,047 | 1,771 | 2,166 | 2,719 |
| Total liabilities at year-end | 273 | 516 | 1,069 | 1,247 | 1,576 |
| Long-term liabilities at year-end | 85 | 296 | 669 | 807 | 693 |
| Shareholders' equity at year-end | 422 | 531 | 702 | 919 | 1,143 |
| | | | | | |
| Additional Information | | | | | |
| Cash dividends paid | - | 20 | 13 | 46 | 40 |
| Depreciation and amortisation expenses | 48 | 58 | 58 | 119 | 162 |
| Capital expenditures | 118 | 144 | 969 | 530 | 453 |
| Cash flows from operating activities | 46 | 179 | 272 | 393 | 337 |
| Number of employees at year-end | 590 | 710 | 852 | 1,009 | 1,088 |
| Number of shares outstanding at year-end (in million) | 244 | 244 | 305 | 366 | 366 |

| Per Share Data* | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|------|------|------|-------|------|
| Earnings - Basic (RMB cents) | 18 | 35 | 51 | 72 | 72 |
| Cash dividend (RMB cents, adjusted for bonus shares) | 5.45 | 3.62 | 7.64 | 10.82 | 7.20 |
| Special Cash Dividend (RMB cents) | - | - | - | 5.00 | - |
| Net Asset Value (RMB cents) | 115 | 145 | 192 | 251 | 313 |
| Closing stock price (SGD, adjusted for bonus shares) | 0.50 | 0.41 | 0.49 | 0.79 | 1.00 |
| Operating EBITDA (RMB cents) | 34 | 57 | 73 | 121 | 128 |
| PE ratio | 14 | 6 | 5 | 6 | 7 |
| Price / EBITDA | 7 | 4 | 3 | 3 | 4 |

*Based on 366 million shares after adjusting for bonus shares.

SELECTED BALANCE SHEET DATA

(RMB million)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|------------|------------|--------------|--------------|--------------|
| Non-current assets | 443 | 525 | 1,415 | 1,800 | 2,092 |
| - Property, plant and equipment | 435 | 496 | 1,344 | 1,718 | 1,984 |
| Current assets | 252 | 522 | 356 | 366 | 627 |
| - Inventories | 22 | 70 | 81 | 113 | 264 |
| - Trade and bills receivables | 89 | 72 | 66 | 83 | 137 |
| - Deposits, prepayments and other receivables | 85 | 180 | 148 | 103 | 95 |
| - Cash and cash equivalents | 56 | 200 | 61 | 66 | 132 |
| Current liabilities | 188 | 220 | 400 | 440 | 883 |
| - Trade and other payables | 105 | 121 | 322 | 305 | 387 |
| - Current portion of bank loans | 83 | 95 | 40 | 109 | 450 |
| Non-current liabilities | 85 | 296 | 669 | 807 | 693 |
| - Bank loans | 85 | 296 | 669 | 807 | 680 |
| Share Capital and Reserves | 422 | 531 | 702 | 919 | 1,143 |

The Group's net profit of RMB 263.5 million was marginally lower as compared to last year, despite the increase in sales volume arising from Production Phase Four ("PP4") Expansion. This was due to the persistently high raw material costs during the year, especially for benzene, which is one of the main raw materials for our key product, aniline. Benzene costs went up 23% as compared to the previous year, while the average selling price of aniline declined by 4%.

The Group's total sales rose 9% to RMB 1,635.9 million, from RMB 1,501.1 million in the previous year. This was brought about by the increase in production volume from the full year effect of our PP4 capacity expansion, which doubled our production capacity for caustic soda, chlorine, and aniline since May 2006. The Group benefited, however, from the increase in the average selling prices of caustic soda and chlorine by 5% and 9%, respectively, as compared to the previous year.

The Group's operating EBITDA improved from RMB442.5 million to RMB467.1 million for the year.

Because of the high costs of raw materials during the year, the Group's total gross margin decreased from 26% to 24%. The gross margin for caustic soda rose from 47% to 53%, while the gross margin for chlorine rose from 13% to 21%. These were due to economies of scale from the PP4 capacity expansion, as well as the increase in the selling prices for both caustic soda and chlorine during the year. The gross margin for aniline, however, decreased significantly from 23% to 5% due to the high price of benzene during the year, as compared to the previous year.

The Group's selling expenses rose 43% to RMB 21.3 million, mainly due to higher freight rates, and the increase in volume of deliveries made to customers. Administrative expenses increased by 10% to RMB 69.2 million, due mainly to the increase in property taxes relating to land-use rights. Net finance expenses increased 53%, due mainly to the increase in interest expenses during the year. The Group's income tax charge decreased by 65% to RMB 8.1 million, mainly as a result of tax rebates for the purchase of local capital equipment by the Group's subsidiary in the PRC.

The Group's return on equity decreased from 38% to 29% for the year, while net total debt to equity as at 31 December 2007 was 126%, as compared to 128% for the previous year.

The Group's operating EBITDA improved from RMB442.5 million to RMB467.1 million for the year. The Group's operating EBITDA margin decreased from 30% to 29% for the year, while interest coverage ratio decreased from 10 times to 6 times.

FINANCIAL HIGHLIGHTS

(RMB million, except per share data)

| | 2007 | 2006 | % |
|---------------------------|-------|-------|-----|
| Revenue | 1,636 | 1,501 | 9% |
| Operating EBITDA | 467 | 443 | 6% |
| NPAT | 263 | 264 | - |
| EPS (RMB cents) | 72 | 72 | - |
| NAV per share (RMB cents) | 313 | 251 | 25% |

Export sales accounted for 21% of the Group's turnover for the year. During the year, the Group continued to export caustic soda and aniline, to global companies such as Tricon Energy Ltd, Mitsubishi Corporation and Basic Chemical Solutions, L.L.C.

The Group reported record revenue of RMB1,636 million, up 9% from FY2006, boosted by higher production output from a full year impact of its PP4 capacity expansion which was largely absorbed by the market. However, generally weak product prices and high raw material prices, particularly in the fourth quarter, caused full year net profit to be marginally lower at RMB263 million, compared to the previous year. The earnings was also impacted, in part, by losses recorded for VCM due to start-up difficulties encountered with the production process.

Based on the full year results, earnings per share was 72 RMB cents, while net asset value per share was RMB3.13 as at 31 December 2007.

Revenue by Geographical Areas

FY2007



79%

PRC
FY2006: 88%

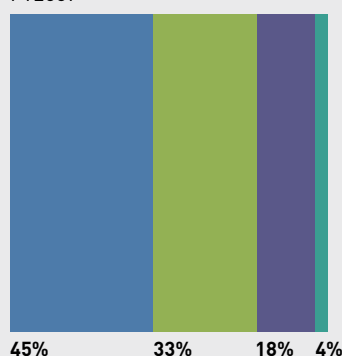
21%

US, Korea, and
Rest of Asia
FY2006: 12%

PRODUCT REVIEW

Revenue by Products

FY2007



Aniline

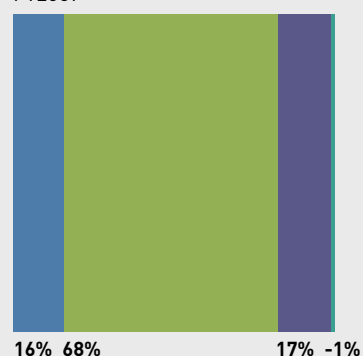
Caustic Soda

Chlorine

Others

EBITDA by Products

FY2007



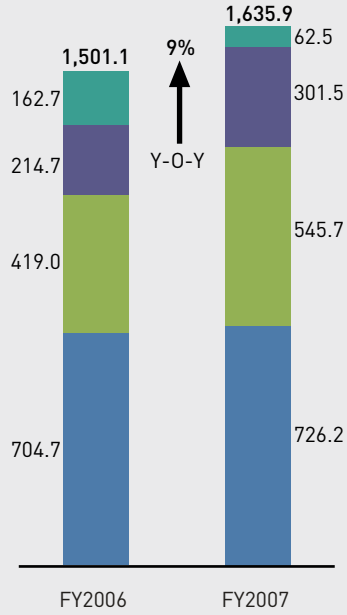
Aniline remained the largest contributor to Group revenue, accounting for 45% or RMB726 million. Despite a 4% decrease in average selling price, the doubling of annual production capacity arising from PP4 capacity expansion resulted in a revenue growth of 3%. However, the significant 23% increase in average prices of aniline's main raw material, benzene, caused gross profit to decrease 77% to RMB38 million.

Caustic soda was the largest contributor to Group gross profits, accounting for 75% at RMB289 million. Revenue and gross profit contribution from caustic soda increased by 30% and 46%, respectively, due to a 5% increase in average selling prices.

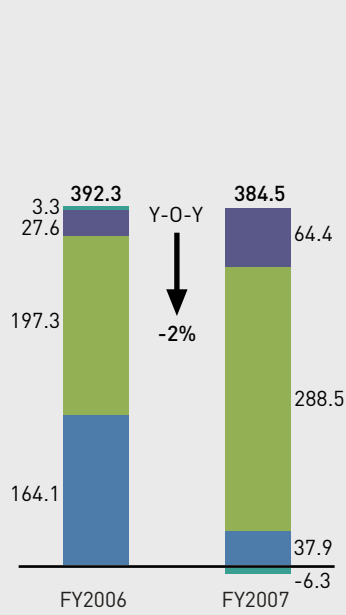
Chlorine registered a 40% increase in revenue to RMB302 million due to the increase in annual production capacities and economies of scale. The average selling price for chlorine increased 9%, compared to the previous year, resulting in a significant 133% increase in gross profit to RMB64 million.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONT'D)

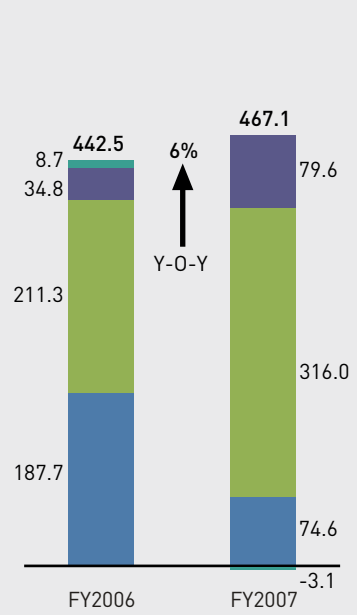
Revenue by Products
RMB million



Gross Profit by Products
RMB million

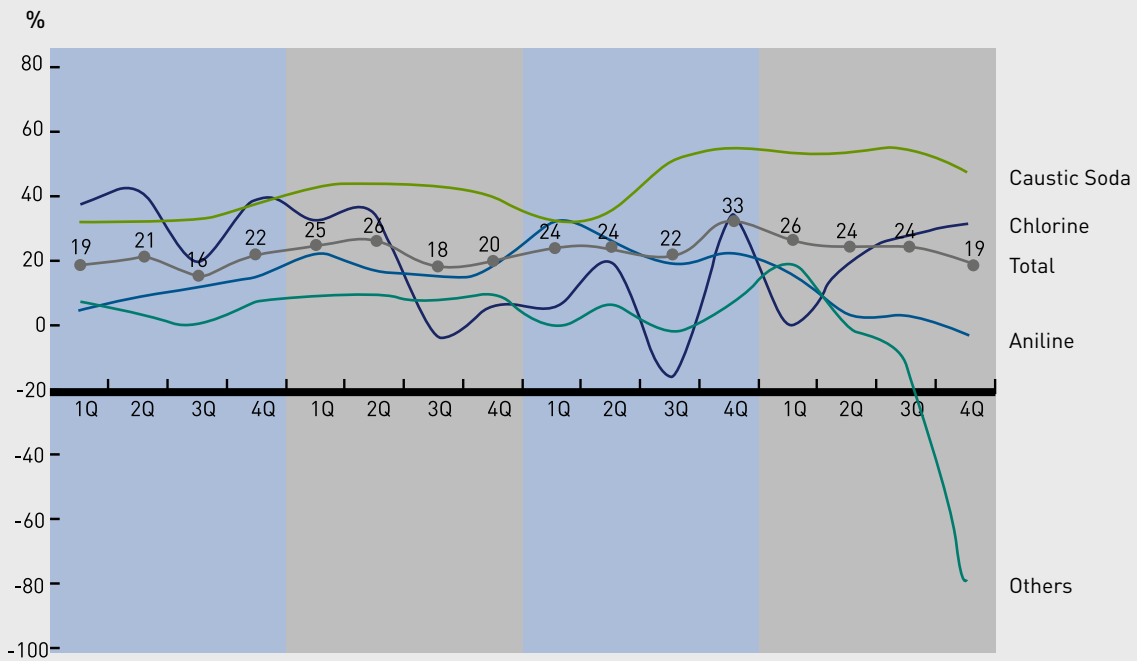


Operating EBITDA by Products
RMB million



Aniline Caustic Soda Chlorine Others

Gross Profit Margins



CASH FLOW

(RMB million)

| | 2007 | 2006 |
|---|--------------|--------------|
| Cash flow from operating activities | 337 | 393 |
| Purchase of property, plant and equipment | (433) | (481) |
| Others | 11 | 18 |
| Cash flow used in investing activities | (422) | (463) |
| Dividends paid | (40) | (46) |
| Interest paid | (68) | (60) |
| Increase in bank borrowings | 236 | 194 |
| Others | (33) | (11) |
| Cash flow from financing activities | 95 | 77 |
| Net increase in cash | 10 | 7 |

Operating activities

Group cash flow from operations amounted to RMB337 million during the year.

Investing activities

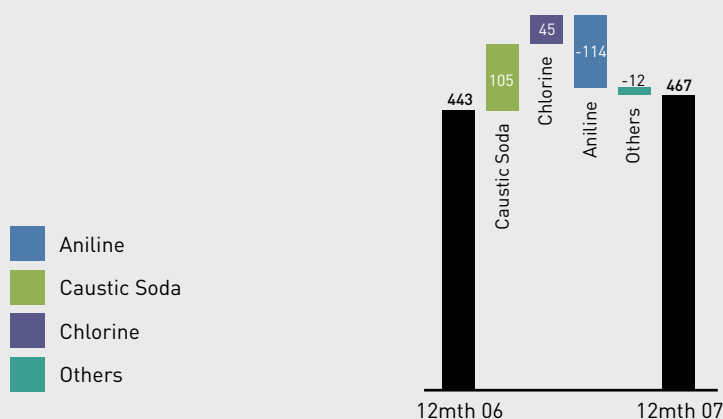
Purchases of property, plant and equipment was RMB433 million, mostly for the VCM plant, and PP5 capacity expansion.

Financing activities

A dividend of RMB40 million relating to the previous financial year, was paid during the year. The increase in bank borrowings was mainly for the construction of the VCM plant and PP5.

Operating EBITDA Variance (FY07 vs FY06)

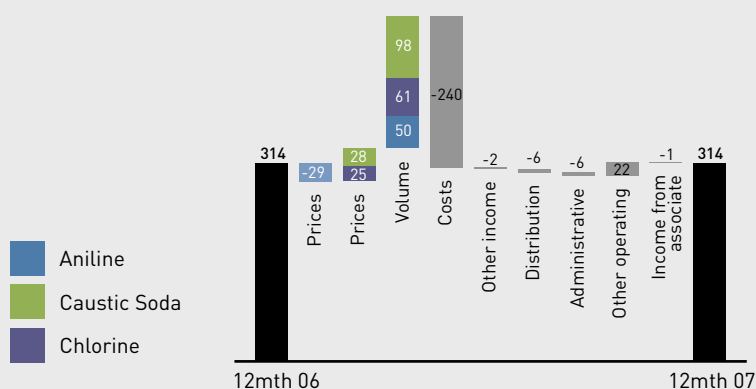
(RMB million)



For FY2007, the Group's operating EBITDA and operating EBITDA margin were RMB467 million and 29%, respectively. Because of PP4 and Co-generation plant, both caustic soda and chlorine contributed strongly to the increase in operating EBITDA for FY07. Compared to the previous year, operating EBITDA for aniline had decreased significantly because of the drop in its selling price and the significant increase in the price of benzene.

EBIT Variance (FY07 vs FY06)

(RMB million)



The Group's EBIT of RMB 314 million was marginally lower as compared to last year, despite the increase in sales volume arising from PP4 Expansion. This was due to costs pressures from the persistently high raw material costs during the year, especially for benzene, which is one of the main raw materials for our main product, aniline.

CAPITAL MANAGEMENT

| | 2007 | 2006 |
|------------------------------------|------|------|
| Net debt* to equity ratio | 126% | 128% |
| Interest cover** (number of times) | 6 | 10 |

The Group generated strong cash flows during the year, brought about by the strong operating performance. The Group's operating EBITDA for FY2007 was RMB467 million, while operating EBITDA margin was 29%.

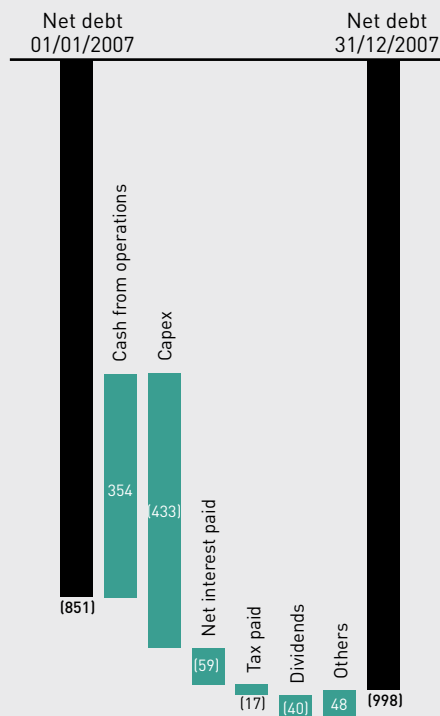
As at 31 December 2007, the Group net debt was 1.26 times of shareholders' equity, while interest cover was 6 times.

* Defined as total liabilities less cash

** Defined as operating EBITDA divided by interest expense

Cash Flow (FY07)

(RMB million)

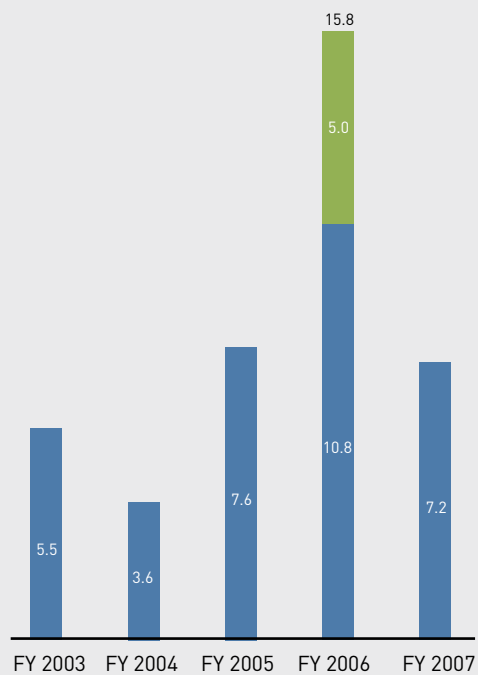
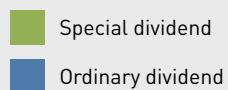


The Group's net debt position increased from RMB851 million at the beginning of FY2007, to RMB998 million at the end of the year. The Group incurred capital expenditures of RMB433 million during the year, mostly for the construction of its VCM plant and PP5.

DIVIDENDS

Cash Dividends per Share, after adjusting for bonus shares

(RMB cents)



For the financial year ended 31 December 2007, the directors' had proposed a first and final cash dividend of 7.2 RMB cents per share, to be payable in 2008, and a 1-for-2 Bonus Share Issue. The Bonus shares will not be entitled to the proposed dividend.



Growing
Stakeholders'
Value

With Strategy

GROWING STAKEHOLDERS' VALUE WITH STRATEGY

Bigger. Stronger. Deeper. In 2007, SP Chemicals took a major step in our quest to drive new growth opportunities which has the potential to transform our business and our position in the chemicals industry.

Termed the Medium Term Strategic Business Plan ("MTSBP") II, these new initiatives are a deliberate effort by the Group to expand our product range, and to integrate vertically up the value chain to control the reliability and costs of its raw materials.

These latest plans follow an eventful 2006 and 2007 with the successful completion of our US\$216 million investment to expand our chlor-alkali and aniline production capacities, develop a Co-generation plant, and create new capabilities for the production of Vinyl Chloride Monomer ("VCM").

Specifically, MTSBP II involves further expansion of the Group's chlor-alkali and aniline production capacities; creation of a new product, styrene monomer; and the embarking of feasibility studies of a petrochemical project in Vietnam.

- CAPACITY ENHANCEMENT
 - Production Phase Five Expansion Plans ("PP5")

As part of MTSBP II, SP Chemicals has embarked on PP5 which will see our annual production capacities for caustic soda, chlorine, and aniline rise to 450,000 tonnes (from 300,000 tonnes), 396,000 tonnes (from 264,000 tonnes), and 135,000 tonnes (from 90,000 tonnes), respectively.

These latest plans follow an eventful 2006 and 2007 with the successful completion of our US\$216 million investment to expand our chlor-alkali and aniline production capacities, develop a Co-generation plant, and create new capabilities for the production of Vinyl Chloride Monomer ("VCM").

Come 1Q FY2008, we will commence trial production of our new PP5 facilities. This latest expansion requires an estimated investment of RMB280 million, which will be met mostly from internal cash flows.

SP Chemicals has been adding new capacity every year since 2000. With each addition, we expect to generate further economies of scale and cost savings, especially since less investment cost is required as we are leveraging on our existing basic infrastructure.

- **PRODUCT EXPANSION**
– Styrene Monomer

Looking ahead, SP Chemicals also identified a market opportunity for styrene monomer, an intermediate raw chemical used in a wide range of consumer and industrial applications such as polystyrene plastics, protective coatings, polyesters and resins.

According to the PRC Styrene Monomer Association, only about 48.5% of the domestic demand for styrene monomer is met locally. Total imports of styrene monomer in 2006 amounted to 2.3 million tonnes. Market research estimates that by 2010, the estimated consumption of styrene monomer in China could reach 7 million tonnes per annum.

Recognizing the huge demand for this product in the PRC and the corresponding supply shortage, we are in an advantageous position to enter this market, given our strategic location in Taixing's China Fine Chemical Industrial Park which has a ready pool of potential customers.

SP Chemicals will commence construction of the new styrene monomer production facilities in 3Q FY2008, with an approximate investment cost of RMB1.1 billion. Target completion and trial production are estimated to take place in 4Q FY2009 and 1Q FY2010, respectively.

- **INTEGRATING UPSTREAM**
– Feasibility Study in Vietnam Petrochemical Project

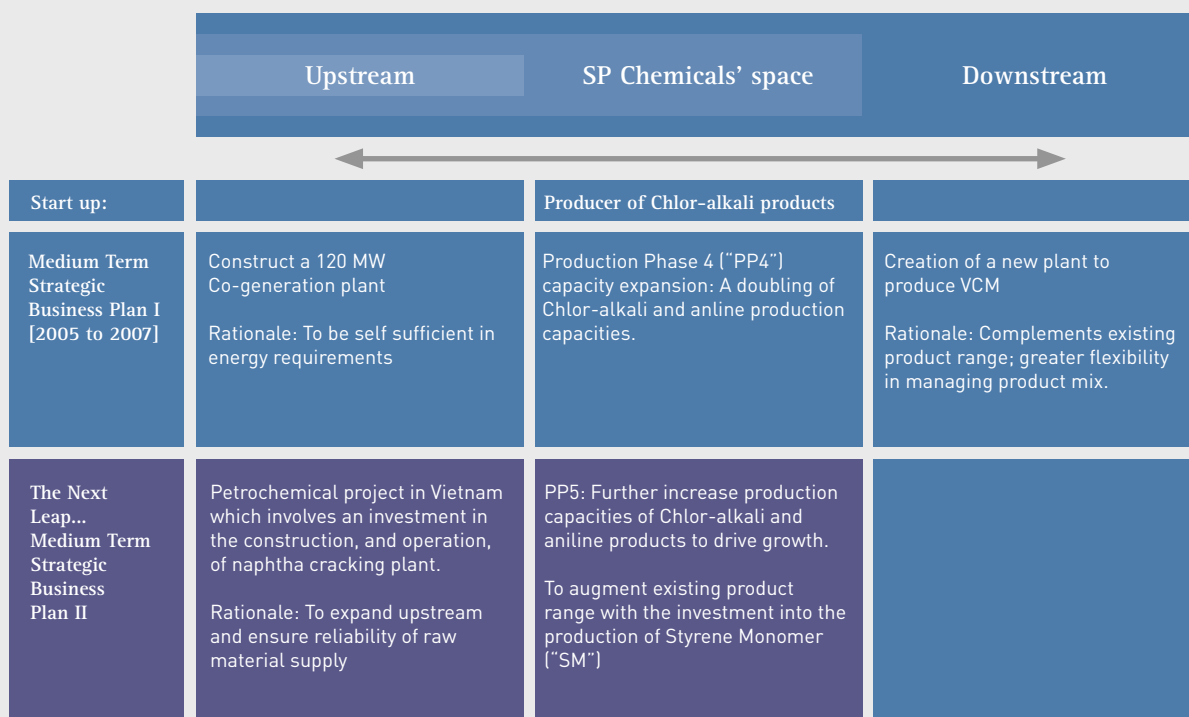
With our ongoing plans to expand our product range and production capacity, our Management foresaw that it was essential to ensure a reliable supply of raw materials – mainly, ethylene – in the long run. Ethylene is a key ingredient in the production of VCM and styrene monomer.

We explored various locations for our plan to integrate upstream into the production of ethylene. After extensive research, we decided that Hoa Tam in Phu Yen Province of Vietnam best met our needs, bearing in mind factors such as costs and location. Additionally, Vietnam offers SP Chemicals a first-mover advantage in this area.

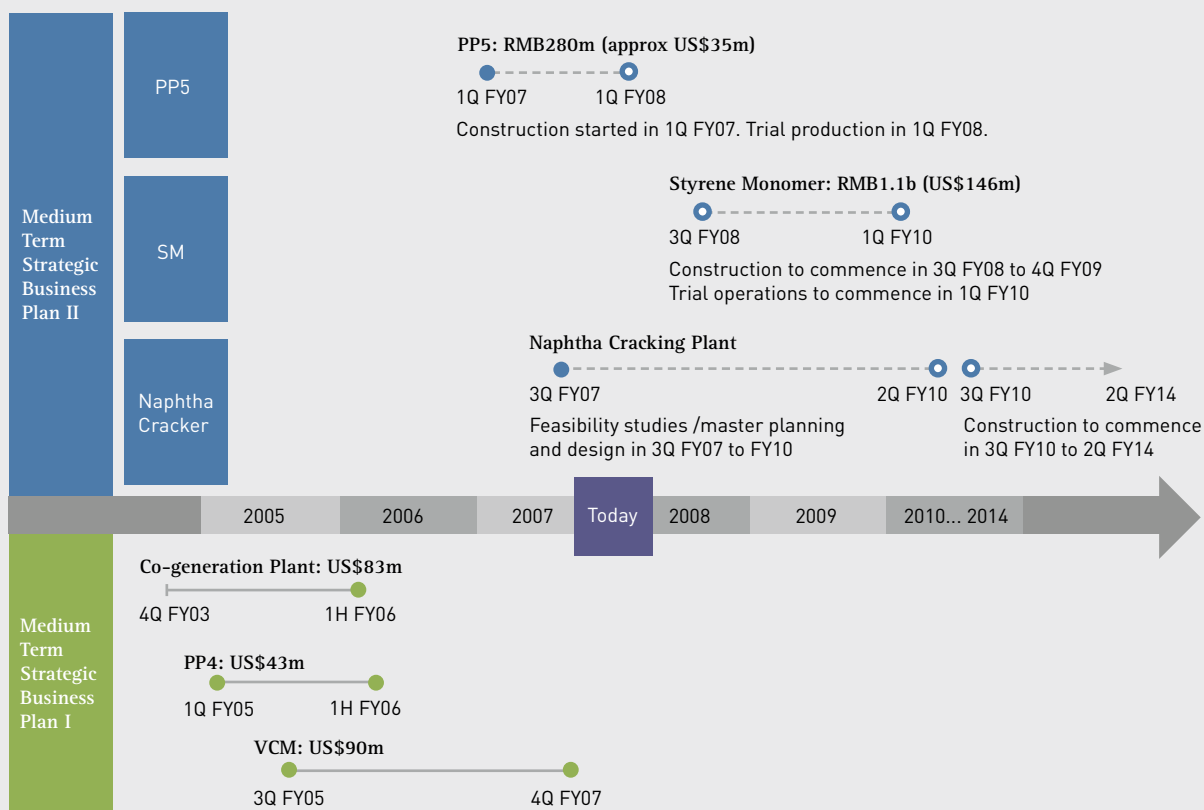
The contemplated Vietnam Petrochemical Project involves two stages: Phase 1 is to develop the basic infrastructure, and construct a naphtha cracker and utility plants, with an estimated ethylene production capacity of 800,000 tonnes per annum. Targeted to be completed in 2014, the investment amount for Phase 1 is estimated to be US\$1.5 billion. Phase 2 is to invest in and develop a modern and integrated 1,300-hectare petrochemical park, on which the naphtha cracker will reside, by 2024. SP Chemicals plans to promote the petrochemical park and invite investments for upstream and downstream petrochemical projects.

For a start, we will launch a rigorous feasibility study to assess the suitability of the location and the viability of investing in the construction of a petrochemical complex and a naphtha cracking plant in Hoa Tam. This also includes identifying potential strategic partners, who have the expertise and resources to invest in such projects.

Extending our market space:



Transformation into a premier, top-tier chemical company:





Growing
Stakeholders'
Value

With stability

RISK MANAGEMENT POLICIES AND PROCEDURES

Operations

As an integrated producer of basic chemicals for the PRC and export markets, the Group's earnings are subject to certain risk factors, including general economic and business conditions; development plans, including the implementation of the Strategic Business Plan of US\$216 million, which was announced in August 2004, and the Production Phase 5 capacity expansion announced in December 2006; raw material costs and availability; competition; industry trends; and changes in government and environmental regulations.

The Group's exposure to these risks, is managed through various initiatives, including:

- Development and execution of a realistic Medium-Term Strategic Business Plan;
- Increasing production capacity and process integration, to achieve economies of scale;
- Continuous emphasis on product quality, competitiveness and customer service;
- Formulation of a Business Continuity Plan;
- Continuous implementation of good environmental practices, in and around our plant; and
- Close monitoring and compliance of changes in legislation and government regulations, affecting the Group's business.

Credit risk

The Group has a credit policy in place which establishes credit limits for customers and monitors their balances on an ongoing basis. Cash and fixed deposits are placed with banks and financial institutions which are regulated. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions involving derivative financial instruments are allowed only with counterparties who have sound credit ratings.

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, on the balance sheets.

Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents, deemed adequate by management, to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's cash and cash equivalents and debt obligations. Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

The Group adopts a policy of managing its interest rate exposure by maintaining a mix of debt portfolio with both fixed and floating rates of interest. Where appropriate, the Group uses interest rate derivatives to hedge its interest rate exposure for specific underlying debt obligations.

The Group has hedged 50% of its exposure to changes in interest rates on a bank loan, by entering into a swap transaction to convert the floating rate to fixed rate.

Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than RMB. The main currency giving rise to this risk is the US dollar.

The Group monitors its foreign exchange risk on an on-going basis to ensure that the net exposure is kept to an acceptable level. The Group entered into non-delivery cross currency interest rate swap contracts, with the effect of swapping about 50% of a US\$ loan with floating rate interest obligations, to a RMB loan with fixed rate interest obligations.



SAFETY, ENVIRONMENT & HEALTH

Safety

We have implemented a Total Production Management program, to train our staff on safety standards and procedures, as well as health and hygiene standards at the workplace.

Alongside our Total Production Management program, our in-house Safety, Environmental Protection and Health Committee ensures that our staff is disciplined in implementing these standards and procedures, at every step of our operations.

We have also set up a voluntary fire brigade, which carries out regular training. Drills are held regularly to test, evaluate and improve our approaches to emergencies. Among other things, our highly automated and advanced facilities also ensure the reliability of our production processes and safety conditions of our workplace.

Environment

ISO Certification

In line with our corporate policy of sustainable development and as a validation of our compliance with international standards for quality management process, SP Chemicals was awarded the ISO9000 Certificate of system of quality certification in 2001 by TÜV Anlagentechnik GmbH. We continued to make advancements in the area, when we were certified to ISO 9001:2000 in June 2004, and to ISO14001:1996 in April 2005, respectively, by the Lloyd's Register and Quality Assurance.

As part of our efforts to implement the ISO14001:1996 system, we invested in environment rectification and protection facilities, where 12 environmental management proposals and more than 100 environmental management rectification projects were implemented. This improved the safety conditions of our facilities significantly, and enhanced our employees' awareness of environmental safety.

Disposal of Waste

SP Chemicals has a waste minimization program, and is committed to managing solid waste in accordance with the PRC's waste management regulations.

- **Solid waste**

There are four main categories of solid waste, namely domestic waste, industrial refuse, hazardous waste and reclaimable waste, which can be divided into 82 species. All the solid waste produced by SP Chemicals is classified, collected, labeled, stored and disposed, strictly in accordance with the relevant regulations. A new solid waste treatment area was set up since July 2005. The 16 categories of hazardous waste are disposed by accredited waste disposal companies, approved by the government environmental departments.

- **Waste water**
SP Chemicals invested in the Organic Waste Water Treatment Facilities, which commenced operations in 2006. With the facilities, the quantity of pipe-discharged waste water will continuously and consistently meet the requirements of the Indices of Comprehensive Waste Water Discharge (GB8978-1996) for the 3rd Grade of waste discharge indices, for the 2nd categories of waste. All the wastes that meet the required indices are then sent to the Waste Water Treatment Plant in the Economic Development Zone, for further treatment.
- **Waste gas**
The technical process, equipment and operations, for environment protection of our caustic soda and aniline plants, are relatively mature. The waste arises mainly from the residual gas from the hydrochloric acid and industrial hydrochloric acid, residual chlorine during the production, and exhaust gas from nitration. The exhaust gas will go through a discharge membrane absorption tower and hydrogen chloride absorption tower. After the absorption treatment, the exhaust gas will meet the requirements of the Indices of Comprehensive Waste Gas Discharge (GB16297-1996) of the 2nd Grade waste discharge requirements.

SP Chemicals has inculcated amongst our staff, a strong culture that is committed to protecting and preserving the Company and the environment that we operate in, for future generations.

With the creation of a new plant to produce Vinyl Chloride Monomer, the expansion of our chlor-alkali facilities and the construction of our Co-generation plant, we had constructed additional environmental protection facilities. We monitor and supervise the expansion projects closely to ensure the construction process follows the requisite environmental laws and regulations, and that the necessary environmental protection facilities are in place, upon each project's operational commencement.

Health

SP Chemicals has inculcated amongst our staff, a strong culture that is committed to protecting and preserving the Company and the environment that we operate in, for future generations. It is this mindset that compels employees to continually observe and improve safety, health and environmental care practices.

Backed by ISO certifications, we are confident that the health standards of our work environment meet industry benchmarks. Nonetheless, as the Company grows, we will continue to strengthen our systems and procedures, and further align them with global standards.

CORPORATE SOCIAL RESPONSIBILITY

Corporate citizenry and social responsibility, run deep throughout SP Chemicals. We strive to be a responsible neighbour and active contributor, in the communities that we operate. By doing business in a socially responsible manner, it means we do not merely focus on profitability, but also on giving and serving, and enhancing our society.

Our SP Chemicals Bursary supports hundreds of talented and good students in need of help. Our SP Chemicals Internship Program works with a vocational institute to train tertiary students and provide 3-year internships in SP Chemicals, after graduation.

Among other things, SP Chemicals gives to education and to the promotion of the Taixing Industrial Park. Our SP Chemicals Bursary supports hundreds of talented and good students in need of help. Our SP Chemicals Internship Program works with a vocational institute to train tertiary students and provide 3-year internships in SP Chemicals, after graduation. This enables us to contribute to the community and to nurture future leaders.

Our CEO serves as the City of Taixing's honorary advisor and consultant for its economic development. As it is more blessed to give than to receive, we will continue to give, as we are able to.



BOARD OF DIRECTORS



Francis Lee Choon Hui

Non-Executive Chairman
and Independent Director

Mr Lee is our Non-Executive Chairman and an Independent Director. He joined our Board in March 2003. Mr Lee read Law in Inner Temple, London and was admitted to the English Bar as a Barrister-At-Law and to the Singapore Bar as an Advocate & Solicitor, in 1970. He was a senior corporate lawyer, whose principal areas of practice were in corporate law, civil litigation and general commercial practice.

In 1992, Mr Lee retired from full-time legal practice to found Corporate Ventures Group, a consultancy firm for mergers and acquisitions, of which he is the Chairman. He is also currently serving as General Counsel/Group Consultant, to Phillip Capital Pte Ltd, with which the Corporate Ventures Group has a strategic alliance, for mergers and acquisitions work.

Mr Lee also sits on the boards of three other listed companies, namely Sunright Limited, JEL Corp Ltd and SSH Corporation Ltd.



Chan Hian Siang

Executive Director and
Chief Executive Officer

Mr Chan has been an Executive Director of our Company since its incorporation and has been the CEO of our Group since 1995. Besides being responsible for the overall management and strategic direction of our Group, Mr Chan also supervises our day-to-day operations. He has contributed significantly to the growth of our business, and was instrumental in the establishment of our former facilities in Yancheng and present Taixing plant.

Mr Chan is also an Executive Officer of our parent company, Asiawide Holdings Pte Ltd (AWH), and a few other companies within our parent group. From 1985 to 1987, Mr Chan was a Loans and Syndication Officer at Asian-American Merchant Bank Limited. In 1988, he joined AWH as a General Manager and was appointed as an Executive Director of AWH in 1990.

Mr Chan holds a Bachelor of Arts (Economics) degree from York University, Toronto, Canada and a Master of Business Administration from McGill University, Montreal, Canada.



Wira Tjendana

Executive Director and
Chief Financial Officer

Mr Tjendana was appointed as an Executive Director of our Company in 2002 and has been the CFO of our Group since 2001. He is responsible for our Group's accounting, finance, treasury, risk management and taxation functions, as well as oversees the finances of our parent group.

Mr Tjendana started his career with KPMG Peat Marwick, London, U.K. in 1985. He was an Audit Manager with KPMG Singapore from 1989 to 1990. Prior to joining our group, he has had more than 10 years of experience as a financial controller of listed and unlisted companies.

Mr Tjendana holds a Bachelor of Arts and a Bachelor of Business Administration (Honours) degrees from Wilfrid Laurier University, Waterloo, Canada, and is a member of the Institute of Chartered Accountants in England and Wales, United Kingdom.



Hendrik Sasmito
Non-Executive Director

Mr Sasmito joined our Board in February 2004 as a Non-Executive Director. He has also been a Director of our parent company, AWH, since 1995.

In 1986, Mr Sasmito joined PT Panarub Industry, an integrated shoe manufacturer, as a Marketing Manager, and was subsequently promoted to the position of President Director in 1991.

Mr Sasmito holds a Bachelor of Science degree in Business Administration-Marketing from the California State University, Fresno, USA, and a Master of Business Administration degree from the National University of Singapore.



Quek Cher Teck
Independent Director

Mr Quek is one of our Independent Directors and the Chairman of our Remuneration Committee. He joined our Board in February 2002 as a Non-Executive Director, bringing with him more than 20 years of experience in commercial banking, trade banking, investment banking and corporate finance with the United Overseas Bank Group.

Mr Quek is currently the Executive Vice President of the UOB Group, covering the business of Greater China region. He is also on the board of several UOB related companies.

Mr Quek holds a Bachelor degree in Business Administration from the University of Singapore.



Ng Tat Pun
Independent Director

Mr Ng is one of our Independent Directors, and was appointed to our Board in March 2003. He is also the Chairman of our Audit and Nominating Committees. He has extensive experience in the banking and finance industry.

Mr Ng started his banking career at Citibank NA, Singapore in 1971 and was a Vice President when he left in 1982. Since then, he has served in various senior positions with local and foreign financial institutions. From 1988 to 1997, he was the Executive Vice President of OCBC Bank, in charge of its International Banking and Financial Institutions business. In 1998, he was appointed the Executive Director and Chief Executive Officer of OCBC Bank Malaysia. He was Managing Director at JP Morgan Chase Bank from 1999 to 2002, and subsequently, a senior advisor of UBS AG from 2003 to 2008. He is also the Independent Director of Engro Corporation Limited and Thai Beverage Public Company.

Mr Ng holds a Bachelor of Arts (Economics and History) degree from the University of Singapore.



Rachel Eng Yaag Ngee
Independent Director

Ms Eng is one of our Independent Directors and was appointed to our Board in March 2003.

Ms Eng is a Partner of WongPartnership LLP, a firm of advocates and solicitors, with more than 16 years of experience in legal practice and is the Firm's Head of Capital Markets and Corporate Department. Her main areas of practice are equity capital markets, corporate finance and commercial transactions.

Ms Eng graduated from the National University of Singapore with a Bachelor of Law (Honours) degree.

SENIOR EXECUTIVES



Huang Wan Yuan

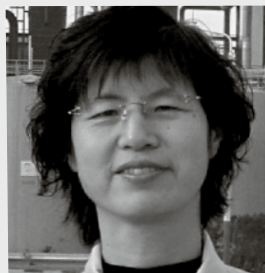
Director,
SP Chemicals (Taixing) Co., Ltd

Mr Huang retired from SP Chemicals in October 2007, but remains active as a director of the SP Chemicals (Taixing) Co., Ltd. Prior to his retirement, he was the General Manager of SP Chemicals (China) General Management Office and was responsible for the overall management of our PRC operations.

Mr Huang has over 42 years of experience in the chemical industry. He joined SP Chemicals in Taixing as Deputy General Manager in 1995 and was promoted to General Manager (Operations) in 2000. This was followed by another promotion to General Manager of SP Chemicals (China) General Management Office in March 2003.

Mr Huang entered the chemical industry in 1961 when he joined Nanjing Chemical Plant. He was promoted to become the Head of the Research Department in 1981.

Mr Huang holds a Bachelor degree from Hua Dong Technological University, Shanghai, the PRC.



Pan Yong Mei

General Manager,
SP Chemicals
General Management Office

Ms Pan, the General Manager of SP Chemicals General Management Office since October 2007, is responsible for the overall management of our PRC operations.

From 1993 to 1995, Ms Pan joined the now defunct Nanjing Singpu Fine Chemicals Co., Ltd, a company within our parent Group, as the Finance Manager. She was promoted as General Manager of Nanjing Development Co., Ltd in 1995. Prior to joining our parent group, she was an accountant at Nanjing Optics Apparatus Component 2nd Factory from 1980-1985, and an accountant at Nanjing Cheung Kong (Holdings) Limited from 1985 to 1993.

Ms Pan holds a Master of Business Administration Degree (specializing in General and Strategic Management) from the Maastricht School of Management.



Wang Xiao Hua

General Manager,
SP Chemicals (Taixing)
Co., Ltd and Executive Deputy
General Manager
(Development and Projects)

Mr Wang is the General Manager of SP Chemicals (Taixing) Co., Ltd and Executive Deputy General Manager (Development and Projects) since December 2007.

Mr Wang joined our Group in 1993 as the Business Manager of our former Yancheng plant, and subsequently joined our Taixing facility as Sales and Purchasing Manager in 1995. From 1997 to March 2003, he was the Deputy General Manager of our Taixing plant. Subsequently, he was the General Manager (Operations) and Head of Safety & Environmental Committee in the Company until December and May 2007 respectively. Prior to joining our Group, he was with Nanjing Chemical Plant from 1985 to 1988. From 1988 to 1993, he was a Technical Manager of Nanjing Si Li Chemical Industries Co., Ltd.

Mr Wang holds a diploma from Nanjing Chemical Technology College, majoring in Basic Organic Synthesis. In 2004, he obtained an Executive Master of Business Administration Degree from the Australian National University.



Wang De Rong

Deputy General Manager
and Head of Audit &
Evaluation Department,
SP Chemicals
General Management Office

Mr Wang is our Deputy General Manager, and has been the Head of Audit & Evaluation Department since 2001, responsible for our PRC subsidiary. Mr Wang's responsibilities include planning for internal audits, review and evaluation of internal controls procedures of the accounting systems, and liaising with external auditors.

From 1996 to 1999, he was the Finance Manager of the Taixing facility, and was appointed Chief Financial Officer in 1999. In 2003, he was promoted to his current position. Prior to joining our Group, he was the Chief Accountant of Nanjing Si Li Chemical Industries Co., Ltd from 1988 to 1996. From 1961 to 1988, he worked with Nanjing Jiangnan Machinery Plant.

Mr Wang graduated from Nanjing Fifteen High School and completed an accountancy course with the Hong Kong Asia Correspondence Institute.



Cheng Deng Tian

Deputy General Manager
and Head of Finance,
SP Chemicals
General Management Office

Mr Cheng is the Deputy General Manager and has been overseeing the finances of our PRC operations since March 2003.

He was the Finance Manager at our Taixing facility from 1999 to March 2003, responsible for finance, treasury, credit control, general and cost accounting.

Mr Cheng joined our Group in 1996 as Assistant Finance Manager of our former Yancheng plant, and was responsible for finance management and accounting matters.

From 1994 to 1996, he was an Estimator of the Housing Development Branch-cum-Chief Accounting Officer of the Construction Material Branch of Yancheng Xin Kwang Economic Development Company.

Mr Cheng holds a Bachelor of Accountancy degree from Harbin Construction University. In November 2005, he completed a course for Chief Financial Officers at Shanghai China Europe International Business School.



Lee Wei Lin

Group Finance and
Corporate Affairs Manager

Ms Lee is our Group Finance and Corporate Affairs Manager, responsible for overseeing our Group's financial planning, risk management, accounting and taxation functions. She is also our Company Secretary.

Prior to joining our Group in July 2002, Ms Lee was the Regional Accountant with Linklaters. She started her professional career in 1997 as an Audit Assistant with KPMG Singapore, and was promoted to Audit Assistant Manager in 2001.

Ms Lee holds a Bachelor of Accountancy degree from Nanyang Technological University, and is a member of the Institute of Certified Public Accountants of Singapore.

CORPORATE INFORMATION

Board of Directors

Francis Lee Choon Hui,
Non-Executive Chairman and
Independent Director

Chan Hian Siang,
Executive Director and CEO

Wira Tjendana,
Executive Director and CFO

Hendrik Sasmito,
Non-Executive Director

Quek Cher Teck,
Independent Director

Ng Tat Pun,
Independent Director

Rachel Eng Yaag Ngee,
Independent Director

Audit Committee

Ng Tat Pun, Chairman
Rachel Eng Yaag Ngee
Quek Cher Teck

Nominating Committee

Ng Tat Pun, Chairman
Hendrik Sasmito
Rachel Eng Yaag Ngee

Remuneration Committee

Quek Cher Teck, Chairman
Ng Tat Pun
Rachel Eng Yaag Ngee

Company Secretary

Lee Wei Lin, CPA

Registered Office:

15 Beach Road
#05-11 Beach Centre
Singapore 189677
Tel: +65 6336 6188
Fax: +65 6339 6349
www.spchemicals.com

Auditors

KPMG
Certified Public Accountants
Singapore

16 Raffles Quay
#22-00 Hong Leong Building
Singapore 048581

Audit partner-in-charge:
Tay Puay Cheng
(Appointed since 2006)

Share Registrar

M&C Services Private Limited
138 Robinson Road
#17-00 The Corporate Office
Singapore 068906

CORPORATE GOVERNANCE STATEMENT 2007

The Board of Directors (the "Board") is fully committed to setting and maintaining a good standard of corporate governance, in compliance with the Code of Corporate Governance 2005 ("Code"). This is to ensure greater transparency, protection of shareholders' interests and enhancement of shareholders' value.

This statement outlines the main corporate governance practices that are in place during the year, with specific reference to each of the principles of the Code. The Board had adhered with the Principles and Guidelines of the Code, and any deviations will be specified in this Statement.

Board's Conducts of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.

The Board of Directors (the "Board") comprises two executive directors, one non-executive director and four independent directors, all having the right core competencies and diversity of experience, which enable them to effectively contribute to the Company.

The primary role of the Board is to ensure good governance. To do this, it provides entrepreneurial leadership, sets strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives, establishes a framework of prudent and effective controls which enables risk to be assessed and managed, reviews management performance, sets the company's values and standards, and ensures that obligations to shareholders and others are understood and met. The primary function of the Board is also to protect and enhance long-term value and returns for its shareholders. Besides carrying out its statutory responsibilities, the Board oversees the formulation of the Group's long-term strategic objectives and directions, reviews and approves the Group's business and strategic plans, and monitors the achievement of the Group's corporate objectives. It also oversees the management of the Group's business affairs and conducts periodic reviews of the Group's financial performance.

The Group has established financial authorization and approval limits, for operating and capital expenditure, the procurement of goods and services and the acquisition and disposal of investments. Board approval is required for these matters, if they exceed certain limits, whilst authority for transactions below the limits is delegated to a Management Committee, formed by the CEO, with the Board's mandate, to facilitate operational efficiency.

CORPORATE GOVERNANCE STATEMENT 2007 (CONT'D)

The full Board meets regularly at least on a quarterly basis and ad-hoc Board meetings are convened as and when they are deemed necessary. In the course of the year under review, the number of board meetings held and attended by each board member is as follows:

| Name of Director | Number of Meetings Held | | Attendance |
|--------------------------|-------------------------|-------|------------|
| | Singapore | China | |
| Mr Francis Lee Choon Hui | 6 | 1 | 7 |
| Mr Chan Hian Siang | 6 | 1 | 7 |
| Mr Wira Tjendana | 6 | 1 | 7 |
| Mr Hendrik Sasmito | 6 | 1 | 7 |
| Mr Quek Cher Teck | 6 | 1 | 6 |
| Mr Ng Tat Pun | 6 | 1 | 7 |
| Ms Rachel Eng Yaag Ngee | 6 | 1 | 4 |

To assist in the execution of its responsibilities, the Board has established a number of Board Committees, including an Audit Committee, a Nominating Committee and a Remuneration Committee. These committees function within clearly defined terms of reference and operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored.

Newly appointed directors are provided with background information about the Group's history, business operations, vision and values. Upon appointment of each new director, the Company will provide a formal letter to the director, setting out the director's duties and obligations. Directors also regularly visit the Group's operational facilities in China and meet with the management, to gain a better understanding of the Group's operations. The entire Board meets in Taixing China, at least once a year for site visits, interaction with the local management and other Board agenda.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board consists of seven directors, four of whom are independent directors:

| Name of Director | Board | Audit | Nominating | Remuneration |
|--------------------------|---|----------|------------|--------------|
| Mr Francis Lee Choon Hui | Non-executive Chairman and Independent Director | No | No | No |
| Mr Chan Hian Siang | Chief Executive Officer ("CEO") | No | No | No |
| Mr Wira Tjendana | Chief Financial Officer ("CFO") | No | No | No |
| Mr Hendrik Sasmito | Non-executive Director | No | Yes | No |
| Mr Quek Cher Teck | Independent Director | Yes | No | Chairman* |
| Mr Ng Tat Pun | Independent Director | Chairman | Chairman | Yes |
| Ms Rachel Eng Yaag Ngee | Independent Director | Yes | Yes | Yes |

*Appointed as Chairman with effect from 1 May 2007

The criterion of independence is based on the definition given in the Code. The Board considers an “independent” director as one who has no relationship with the Company, its related companies, or its officers, that could interfere, or be reasonably perceived to interfere, with the exercise of the director’s independent business judgement of the Group’s affairs.

An independent director, Ms Rachel Eng, is the equity partner of WongPartnership LLP, which are the Company’s legal consultants. The Board is of the view that the relationship does not in any way impair her independence.

Non-executive directors exercise no management functions in the Company or any of its subsidiaries. Although all the directors have equal responsibility for the performance of the Group, the role of the non-executive directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and rigorously examined, and take account of the long-term interests, not only of the shareholders, but also of employees, customers, suppliers and the many communities, in which the Group conducts its businesses. The Non-executive directors also review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The Board comprises business leaders and professionals with industry, legal and financial backgrounds, and its composition enables the Management to benefit from a diverse and objective external perspective, on issues raised before the Board. Profiles of the directors are set out on pages 46 and 47 of this Annual Report.

In view of the scope and the nature of the operations of the Group, the Board is of the view that its current composition of seven directors is appropriate. An odd number was chosen so that in the event of a split vote, a board resolution can still be determined by a majority vote of the directors.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the company - the working of the Board and the executive responsibility of the company’s business - which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

There is a clear division of responsibilities between the Chairman and the CEO, which ensures there is a balance of power and authority at the top of the Group. The Group keeps the posts of Chairman and CEO separate. Mr Francis Lee is the Non-executive Chairman and Independent Director, while Mr Chan Hian Siang is the CEO and an Executive Director. The division of responsibilities between the Chairman and CEO is clearly established, set out in writing and agreed by the Board.

The Chairman’s main responsibility is to the Board to ensure its effectiveness on all aspects of its role and set its agenda, ensure that the directors receive accurate, timely and clear information, ensure effective communication with shareholders, encourage constructive relations between the Board and Management, facilitate the effective contribution of non-executive directors in particular, encourage constructive relations between executive directors and non-executive directors, and promote high standards of corporate governance.

The CEO is responsible for the implementation of the Group’s strategies and policies and the conduct of the Group’s day-to-day business.

CORPORATE GOVERNANCE STATEMENT 2007 (CONT'D)

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new directors to the Board.

The Nominating Committee, established in June 2003, comprises three members, two of whom are independent directors. The Nominating Committee is chaired by Mr Ng Tat Pun, an independent director, and has as its members, Mr Hendrik Sasmito and Ms Rachel Eng.

The functions of the Nominating Committee include the following:

- assess the effectiveness of the Board, as a whole and the contribution of each individual director to the effectiveness of the Board;
- re-nominate any director, having regard to the director's contribution and performance;
- determine on an annual basis, whether a director is independent;
- decide whether a director is able to and has been adequately carrying out his or her duties as a director of the Company, particularly where the director has multiple board representations; and
- identify gaps in the mix of skills, experience and other qualities, required in an effective board, so as to better nominate or recommend suitable candidates to fill the gaps.

The number of meetings held and attendance at the meetings during the year are as follows:

| Name of Director | Number of Meetings Held | Attendance |
|-------------------------|-------------------------|------------|
| Mr Ng Tat Pun | 2 | 2 |
| Mr Hendrik Sasmito | 2 | 2 |
| Ms Rachel Eng Yaag Ngee | 2 | 0 |

The directors submit themselves for re-nomination and re-election at regular intervals of at least once every three years. Pursuant to Article 91 of the Company's Articles of Association, one-third of the directors (who have been longest in office since their appointment or re-election) are to retire from office by rotation at the Company's Annual General Meeting ("AGM"). In addition, Article 97 of the Company's Articles of Association provides that a director appointed during the year will hold office only until the next AGM and will be eligible for re-election.

The year of initial appointment and last re-election date of the directors are set out below:

| Name | Age | Appointment | Date of Initial Appointment | Date of Last Re-election |
|--------------------------|-----|---|-----------------------------|--------------------------|
| Mr Francis Lee Choon Hui | 62 | Non-Executive Chairman and Independent Director | 28/3/2003 | 5/4/2006 |
| Mr Chan Hian Siang | 50 | Executive Director and CEO | 8/11/1990 | 5/4/2006 |
| Mr Wira Tjendana | 45 | Executive Director and CFO | 14/2/2002 | 5/4/2006 |
| Mr Hendrik Sasmito | 44 | Non-Executive Director | 16/2/2004 | 5/4/2007 |
| Mr Quek Cher Teck | 53 | Independent Director | 22/2/2002 | 6/4/2005 |
| Mr Ng Tat Pun | 63 | Independent Director | 1/3/2003 | 5/4/2007 |
| Ms Rachel Eng Yaag Ngee | 39 | Independent Director | 1/3/2003 | 5/4/2007 |

The Directors retiring by rotation pursuant to Article 91 of the Company's Articles of Association are Mr Francis Lee Choon Hui, Mr Wira Tjendana and Mr Quek Cher Teck, and they are eligible for re-election at the forthcoming AGM. The Nominating Committee has recommended the re-election of these directors, after assessment of their contributions and their performance.

The Nominating Committee has carried out its annual review of the independence of each director and considers Mr Francis Lee, Mr Ng Tat Pun, Ms Rachel Eng and Mr Quek Cher Teck, as independent.

The Board and the Nominating Committee have endeavoured to ensure that directors appointed to the Board possess the experience, knowledge and skills critical to the Group's business, so as to enable the Board to make sound and well-considered decisions.

CORPORATE GOVERNANCE STATEMENT 2007 (CONT'D)

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The Nominating Committee is tasked with the responsibility for the evaluation of the performance of the Board and each individual director.

It considers a set of quantitative and qualitative performance criteria in evaluating the Board's performance. The performance criteria for the Board evaluation include the Board performance in relation to discharging its principal responsibilities, in terms of the financial indicators as set out in the Code.

In considering the re-appointment of a director, the Nominating Committee evaluates such director's contribution and performance, such as his or her attendance at meetings of the Board or Board committees, where applicable, participation, candour and any special contributions.

Access to Information

Principle 6 : In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis.

Directors are furnished regularly with information from Management about the Group, so that they are equipped to play as full a part as possible, in Board meetings. Board papers are prepared for each meeting of the Board and are normally circulated at least three days in advance of each meeting. The Board papers include sufficient information from Management on financial, business and corporate issues, to enable the directors to be properly briefed on issues to be considered at Board meetings. The Board receives monthly reports from Management during the year, providing updates on key operational activities and the Group's financial position. Subject to the majority approval of the Board, each director has the right to gain access to the Company's records and information.

In addition, directors have separate and independent access to the Company Secretary, who ensures that the Board procedures and applicable rules and regulations, are complied with. Under the direction of the Chairman, the Company Secretary's responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-executive directors, as well as facilitating orientation and assisting with professional development as required. The Company Secretary attends all Board meetings and the meetings of the Board committees of the Company. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Subject to the majority approval of the Board, each director has the right to seek, either individually or as a group, in the furtherance of their duties, independent professional advice, if necessary, at the company's expense.

Remuneration Matters

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee, established in June 2003, comprises three members, all of whom are now independent directors. The Remuneration Committee is now chaired by Mr Quek Cher Teck, and has as its members, Mr Ng Tat Pun and Ms Rachel Eng. Ms Rachel Eng resigned as chairman of the committee on 1 May 2007, and Mr Quek Cher Teck was appointed as chairman on the same date.

The number of meetings held and attendance at the meetings during the year are as follows:

| Name of Director | Number of Meetings Held | Attendance |
|-------------------------|-------------------------|------------|
| Mr Quek Cher Teck ** | 1 | 1 |
| Ms Rachel Eng Yaag Ngee | 1 | 0 |
| Mr Ng Tat Pun | 1 | 1 |

**Mr Quek Cher Teck was appointed as Chairman with effect from 1 May 2007.

The Remuneration Committee recommends to the Board a framework of remuneration, and specific remuneration packages for each director. The Remuneration Committee also reviews and approves recommendations on remuneration policies and packages for senior managers. The review covers all aspects of remuneration, including, but not limited to directors' fees, salaries, allowances, bonuses, benefits-in-kind and long term incentives, such as options and shares. The Remuneration Committee's recommendations are made in consultation with the CEO and submitted for endorsement by the entire Board. No director is involved in any decision making, in respect of any compensation to be offered or granted to him.

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Annual reviews of the compensation of directors are also carried out by the Remuneration Committee to ensure that the executive directors and senior management are appropriately rewarded, giving due regard to the financial and commercial health and business needs of the Group.

The Group's remuneration policy is to provide compensation packages appropriate to attract, retain and motivate managers and directors.

CORPORATE GOVERNANCE STATEMENT 2007 (CONT'D)

Remuneration Policy of Independent and Non-executive Directors

The remuneration of independent and non-executive directors is determined in accordance to the level of contribution, taking into account factors such as effort and time spent and responsibilities of the Directors. The independent and non-executive directors shall not be over-compensated to the extent that their independence may be compromised.

The independent and non-executive directors are paid directors' fees. Each independent or non-executive director is paid a basic retainer fee. Those who perform additional services through Board Committees are paid an additional fee for such services. The members of the Audit Committee are paid a higher fee compared to members of the other Board Committees because of the heavier responsibilities and more frequent meetings required of them. The Chairman of each Board Committee is also paid a higher fee in view of the higher responsibility required.

Executive directors do not receive directors' fees. The amount of director's fees payable to independent or non-executive director is subject to shareholders' approval at the Company's Annual General Meetings.

The proposed framework for determining director's fees for independent and non-executive directors is as follows:

| | | | Ratio to Retainer of S\$40,000 |
|------------------------|----------|---------------------|-----------------------------------|
| Non-executive Chairman | | S\$36,000 per annum | 0.9 |
| Audit Committee | Chairman | S\$24,000 per annum | 0.6 |
| | Member | S\$12,000 per annum | 0.3 |
| Other Board Committees | Chairman | S\$12,000 per annum | 0.3 |
| | Member | S\$6,000 per annum | 0.15 |

Remuneration Policy of Executive Directors and Other Key Executives

The remuneration for the executive directors and the senior key executives comprise a basic salary and a variable component, which is the annual bonus. The annual bonus is tied to the performance of the Group and the individual's performance.

Since February 2003 and December 2006 respectively, the Company has in place service agreements with the CEO and CFO for a period of three years, and would be automatically renewed annually thereafter, unless otherwise agreed in writing between the Company and the executive director, or terminated in accordance with the service agreements. The service agreement provides for termination by either the CEO, CFO, or the Company, upon giving not less than 6 months' notice in writing.

The Remuneration Committee also administers the SP Employee Share Option Scheme ("SP Scheme"). However, to date, no options have been granted pursuant to the SP Scheme.

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

The remuneration of directors and key executives for the year ended 31 December 2007 is set out below:

a) The level and mix of each director's remuneration in bands of S\$250,000 are as follows:

| Remuneration Band and Name of Director | Directors' Fee % | Salary [#] % | Bonus ^{##} % | Benefits-in-kind % | Total % |
|---|---------------------|--------------------------|--------------------------|-----------------------|------------|
| Above S\$2,250,000 to S\$2,500,000 | | | | | |
| Mr Chan Hian Siang | - | 10 | 90 | - | 100 |
| Above S\$250,000 to S\$500,000 | | | | | |
| Mr Wira Tjendana | - | 36 | 64 | - | 100 |
| Below S\$250,000 | | | | | |
| Mr Francis Lee Choon Hui | 100 | - | - | - | 100 |
| Mr Hendrik Sasmito | 100 | - | - | - | 100 |
| Mr Quek Cher Teck | 100 | - | - | - | 100 |
| Mr Ng Tat Pun | 100 | - | - | - | 100 |
| Ms Rachel Eng Yaag Ngee | 100 | - | - | - | 100 |

[#] The salary amount shown is inclusive of allowances, CPF, all fees other than directors' fees, and other emoluments.

^{##} The bonus amount shown is inclusive of CPF.

CORPORATE GOVERNANCE STATEMENT 2007 (CONT'D)

b) The level and mix of each key executive's (who are not also Directors) remuneration in bands of S\$250,000 are as follows:

| Remuneration Band and Name of Key Executive | Salary# % | Bonus## % | Benefits-In-kind % | Total % |
|--|--------------|--------------|-----------------------|------------|
| Below S\$250,000 | | | | |
| Mr Huang Wanyuan | 56 | 44 | - | 100 |
| Ms Pan Yong Mei | 32 | 68 | - | 100 |
| Mr Wang Xiaohua | 35 | 65 | - | 100 |
| Mr Wang Derong | 38 | 62 | - | 100 |
| Mr Cheng Dengtian | 28 | 72 | - | 100 |
| Ms Lee Wei Lin | 42 | 58 | - | 100 |

The salary amount shown is inclusive of allowances, CPF, Social Security Insurance, all fees, and other emoluments.

The bonus amount shown is inclusive of CPF.

Accountability and Audit

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

In presenting the annual financial statements, half-year and the quarterly announcements to the shareholders, it is the aim of the Board to provide the shareholders with a balanced and comprehensible assessment of the Group's position and prospects. The Management also provides the Board with management accounts of the Group's performance on a monthly basis.

Audit Committee

Principle 11: The Board should establish an Audit Committee with written terms of reference, which clearly set out its authority and duties.

The Audit Committee was established in June 2003. Mr Ng Tat Pun, an independent director, chairs the Committee, and its members include Mr Quek Cher Teck, an independent director and Ms Rachel Eng, an independent director. The members bring to the Company invaluable professional and managerial expertise, in the areas of financial, legal and business management, and are qualified to discharge their responsibilities.

The Audit Committee meets regularly with the Group's external and internal auditors and its executive management, to review accounting, auditing and financial reporting matters, so as to ensure that an effective control environment is maintained in the Group.

The Audit Committee also monitors proposed changes in accounting policies, reviews the internal audit functions and discusses the accounting implications of major transactions. In addition, the Committee advises the Board regarding the adequacy of the Group's internal controls and the contents and presentation of its reports.

The functions of the Audit Committee include:

- reviewing the audit plans and scope of audit examination of the external auditors, and approve the audit plans of the internal auditors;
- reviewing the nature and extent of non-audit services, performed by the external auditors;
- making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors
- reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance
- evaluating the overall effectiveness of both the internal and external audits, through regular meetings with each group of auditors;
- reviewing the effectiveness of the internal audit function;
- determining that no restrictions are being placed by management, upon the work of the internal and external auditors;
- evaluating the adequacy of the internal control systems of the Group, by reviewing written reports from the internal and external auditors, and management's responses and actions, to correct any deficiencies;
- evaluating adherence to the Group's administrative, operating and internal accounting controls;
- reviewing the annual and quarterly financial statements, and announcements to shareholders before submission to the Board for adoption;
- reviewing interested person transactions, to ensure that they are on normal commercial terms and are not prejudicial to the interests of the Company or its shareholders; and
- considering other matters as requested by the Board.

CORPORATE GOVERNANCE STATEMENT 2007 (CONT'D)

The Audit Committee reviews arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee's objective is to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.

The Audit Committee is authorized to investigate any matter within its terms of reference, and has full access to management and also full discretion to invite any director or executive officer to attend its meetings, as well as reasonable resources to enable it to discharge its function properly.

The Audit Committee is satisfied with the independence and objectivity of the external auditors and is satisfied that the provision of non-audit services by external auditors would not affect their independence.

The Audit Committee has recommended to the Board the nomination of KPMG, for re-appointment as external auditors of the Company at the forthcoming AGM.

The number of meetings held and attendance at the meetings during the year, are as follows:

| Name of Director | Number of Meetings Held | Attendance |
|-------------------------|-------------------------|------------|
| Mr Ng Tat Pun | 4 | 4 |
| Mr Quek Cher Teck | 4 | 4 |
| Ms Rachel Eng Yaag Ngee | 4 | 4 |

Internal Controls

Principle 12: The Board should ensure that the management maintains an effective system of internal controls to safeguard the shareholders' investments and the company's assets.

The Audit Committee and the Board acknowledge that they are responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Audit Committee and the Board regularly review the effectiveness of all internal controls, including operational controls.

Internal Audit

Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

The Board is responsible for maintaining a system of internal controls to safeguard the shareholders' investments, and the Group's business and assets. The management and the in-house internal auditors monitor the effectiveness of the internal control systems and procedures.

The internal auditors have a formal charter, which describes its purpose, authority and responsibility. Its audit plans are submitted and approved by the Audit Committee. The internal auditors report primarily to the Chairman of the Audit Committee. The Audit Committee reviews the scope and results of the internal auditors and ensures that the internal auditors have adequate resources, appropriate standing within the Group, and appropriate communications with the external auditors and the management.

Communication with Shareholders

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

In line with continuous disclosure obligations of the Company, and pursuant to the Singapore Exchange Limited ("SGX") Listing Rules and the Singapore Companies Act, the Board's policy is that shareholders are fully informed of all major developments that impact the Group.

Information is communicated to shareholders on a timely basis. Communication is made through:

- annual reports that are prepared and issued to all shareholders;
- quarterly financial statements containing a summary of the financial information and affairs of the Group for the period;
- notices of and explanatory memoranda for annual general meetings and extraordinary general meetings;
- press and analyst briefings for the Group's half-year and annual results, as well as other briefings, as appropriate;
- press releases on major developments of the Group;
- disclosures to the SGX; and
- the Group's website at <http://www.spchemicals.com> at which shareholders can access information on the Group. The website provides, inter alia, corporate announcements, press releases, annual reports, and profiles of the Group.

CORPORATE GOVERNANCE STATEMENT 2007 (CONT'D)

In addition, shareholders are encouraged to attend and to vote in the AGM, to ensure a high level of accountability and to stay informed of the Group's strategy and goals. The Company does not have any provisions in their Articles of Association to allow for absentia voting methods such as by mail, email, fax, etc, as participation of shareholders appears effective. The notice of the AGM is despatched to shareholders, together with explanatory notes or a circular on items of special business, at least 14 working days before the meeting. The AGM is the principal forum for dialogue with shareholders. There are separate resolutions on each substantially separate issue.

The Chairmen of the Audit, Remuneration and Nominating Committees, will be available at the forthcoming AGM to answer questions relating to the work of these committees. The external auditors will also be present to assist the directors in addressing any relevant queries from the shareholders.

Dealings in Securities

In compliance with the SGX Listing Manual, the Group prohibits the directors and employees to trade in the Company's securities, during the period beginning one month and two weeks before the date of the announcement of the full year and quarterly results respectively and ending on the date of the announcement of the relevant results. Directors and employees are also advised against dealing in the securities when they are in possession of any unpublished material price-sensitive information of the Group.

Interested Person Transactions

Disclosure of interested person transactions is set out in page 116 of this Annual Report. All interested person transactions were generally concluded on normal commercial terms. When a potential conflict of interest arises, the director concerned does not participate in discussions and refrains from exercising any influence over other members of the Board.

The Board and the Audit Committee will review all interested person transactions to be entered to ensure that the relevant rules under Chapter 9 of the SGX Listing Manual are complied with.

Financial Reports

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Directors' Report

We are pleased to submit this annual report to the members of the Company, together with the audited financial statements for the financial year ended 31 December 2007.

Directors

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

Francis Lee Choon Hui
Chan Hian Siang
Wira Tjendana
Hendrik Sasmito
Quek Cher Teck
Ng Tat Pun
Rachel Eng Yaag Ngee

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50 (the Act), particulars of interests of directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are as follows:

| Name of director and corporation in which interests are held | Holdings at beginning of the year | Holdings at end of the year |
|--|-----------------------------------|-----------------------------|
| Hendrik Sasmito | | |
| SP Chemicals Ltd. | | |
| - ordinary shares | | |
| - deemed interests | 187,011,180 | 187,963,180 |
| Asiawide Holdings Pte Ltd | | |
| - ordinary shares | | |
| - interests held | 4,000,000 | 4,000,000 |
| - deemed interests | 6,000,000 | 6,000,000 |
| Chan Hian Siang | | |
| SP Chemicals Ltd. | | |
| - ordinary shares | | |
| - interests held | 120,000 | 120,000 |
| - deemed interests | 37,552,236 | 37,552,236 |
| Asiawide Investment (NZ) Limited (in voluntary liquidation) | | |
| - ordinary shares of NZ\$1.00 each | 50,000 | 50,000 |
| Wira Tjendana | | |
| SP Chemicals Ltd. | | |
| - ordinary shares | 75,000 | 75,000 |

Directors' Report (Cont'd)

By virtue of Section 7 of the Act, Mr Hendrik Sasmito is deemed to have interests in the subsidiaries of SP Chemicals Ltd., which are wholly-owned, at the beginning of the year, or date of incorporation if later, and at the end of the financial year.

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

There were no changes in any of the above-mentioned interests of the directors in the Company between the end of the financial year and 21 January 2008.

Except as disclosed under the "Share Options" section of this report, 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 in or debentures of the Company or any other body corporate.

During the financial year, the Company incurred professional fees amounting to RMB211,000 (2006: RMB108,000) to a firm of which a director of the Company is a member. However, the director has neither received nor become entitled to receive any benefits arising out of these transactions other than those to which she is ordinarily entitled to as a member of the professional firm.

Except for salaries, bonuses and fees and those benefits that are disclosed in this report and in notes 23 and 30 to the financial statements, since the end of the last financial year, no director 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 he is a member, or with a company in which he has a substantial financial interest.

Share options

The SP Employee Share Option Scheme (the SP Scheme) of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 21 July 2003. The SP Scheme is administered by the Company's Remuneration Committee comprising three directors: Mr Quek Cher Teck, Ms Rachel Eng Yaag Ngee and Mr Ng Tat Pun.

Other information regarding the SP Scheme is set out below:-

(i) Participants

Under the terms of the Remuneration Committee, the Remuneration Committee may make offers of the grant of options to:

- (a) employees and directors (including non-executive directors) of the Group;
- (b) employees of an associate; and
- (c) executive officers and directors (including executive directors and non-executive directors) of the ultimate holding company, Asiawide Holdings Pte Ltd and its subsidiaries (other than controlling shareholders and their associates), who have contributed to the success and development of the Group.

Controlling shareholders and their associates are not eligible to participate in the SP Scheme.

The aggregate number of shares to be made available to employees of the Company's associated companies shall not exceed twenty percent of the shares available under the SP Scheme, and the aggregate number of shares to be made available to executive officers and directors of the ultimate holding company and its subsidiaries shall not exceed twenty percent of the shares available under the SP Scheme.

For this purpose, a company is an "associate" if the Company and/or its subsidiaries hold at least twenty percent but not more than fifty percent of the issued shares in that company, and if the Company and/or its subsidiaries have the capacity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of that company.

(ii) Scheme Size

The aggregate number of shares over which the options may be granted pursuant to the SP Scheme shall not exceed fifteen percent of the issued share capital of the Company on the date preceding the grant of an option.

(iii) Exercise Price

Under the rules of the SP Scheme, options may be granted at exercise prices:-

- (a) at the prevailing market price based on the average of the last dealt price per share as reported in the Business Times for the five consecutive trading days immediately preceding the date of grant (Market Price); or
- (b) at a price which is set at a discount to the Market Price, provided that:-
 - the maximum discount shall not exceed twenty percent of the Market Price; and
 - the discount must have been approved by shareholders in a separate resolution.

(iv) Option Exercise Period

The SP Scheme shall be in force up to a maximum period of 10 years from the date on which the SP Scheme was implemented. The SP Scheme may continue beyond the stipulated period with the approval of shareholders by way of ordinary resolution in general meeting and of any relevant authorities which may then be required.

There are no options granted or vested since the commencement of the SP Scheme.

Directors' Report (Cont'd)

During the financial year, there were:

- (i) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and
- (ii) no shares issued by virtue of any exercise of options to take up unissued shares of the Company or its subsidiaries.

As at the end of the financial year, there were no unissued shares of the Company or its subsidiaries under option.

Audit Committee

The members of the Audit Committee during the year and at the date of this report are:

Mr Ng Tat Pun (Chairman), independent director

Mr Quek Cher Teck, independent director

Ms Rachel Eng Yaag Ngee, independent director

The Audit Committee performs the functions specified in Section 201B of the Act, the SGX Listing Manual, and the Code of Corporate Governance.

The Audit Committee has held 4 meetings since the last directors' report. In performing its functions, the Audit Committee met with the Company's external and internal auditors to discuss the scope of their work, the results of their examination and evaluation of the Company's internal accounting control system.

The Audit Committee also reviewed the following:

- assistance provided by the Company's officers to the internal and external auditors;
- quarterly financial information and annual financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- interested person transactions (as defined in Chapter 9 of the SGX Listing Manual).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors, and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditors, and has recommended to the Board of Directors that the auditors, KPMG, be nominated for re-appointment as auditors, at the forthcoming Annual General Meeting of the Company.

The auditors, KPMG, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Chan Hian Siang
Director

Wira Tjendana
Director

Singapore
20 February 2008

Statement By Directors

In our opinion:

- (a) the financial statements set out on pages 75 to 132 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 2007 and of the results and cash flows of the Group and the changes in equity of the Group and of the Company for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) 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.

The Board of Directors has, on the date of this statement, authorized these financial statements for issue.

On behalf of the Board of Directors

Chan Hian Siang
Director

Wira Tjendana
Director

Singapore
20 February 2008

Independent Auditors' Report

Members of the Company
SP Chemicals Ltd.

We have audited the accompanying financial statements of SP Chemicals Ltd. (the Company) and its subsidiaries (the Group), which comprise the balance sheets of the Group and the Company as at 31 December 2007, the income statement and cash flow statement of the Group and the statements of changes in equity of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 75 to 132.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 and fair presentation of the financial statements 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 the directors, 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.

Independent Auditors' Report (Cont'd)

Opinion

In our opinion:

- (a) the consolidated financial statements of the Group and the balance sheet and the 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 to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and the results and cash flows of the Group and the changes in equity of the Group and the Company for the year ended on that date; and
- (b) 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.

KPMG

Certified Public Accountants

Singapore

20 February 2008

Balance Sheets

As at 31 December 2007

| | Note | Group | | Company | |
|---|------|------------------|------------------|------------------|------------------|
| | | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| Non-current assets | | | | | |
| Property, plant and equipment | 3 | 1,984,311 | 1,717,996 | 276 | 53 |
| Leasehold prepayments | 4 | 44,521 | 45,490 | – | – |
| Intangible assets | 5 | 34,292 | 8,956 | – | – |
| Subsidiaries | 6 | – | – | 825,552 | 959,246 |
| Associate | 7 | 25,278 | 25,346 | 15,000 | 15,000 |
| Staff loans and advances | 8 | 3,198 | 2,536 | – | – |
| | | <u>2,091,600</u> | <u>1,800,324</u> | <u>840,828</u> | <u>974,299</u> |
| Current assets | | | | | |
| Inventories | 9 | 263,833 | 113,427 | – | – |
| Trade and bills receivables | 10 | 136,906 | 83,387 | – | – |
| Deposits, prepayments and other receivables | 11 | 94,655 | 102,980 | 203 | 757 |
| Amounts due from related parties | 12 | – | 32 | 146,942 | 125,903 |
| Cash and cash equivalents | 13 | 131,851 | 65,848 | 46,854 | 15,838 |
| | | <u>627,245</u> | <u>365,674</u> | <u>193,999</u> | <u>142,498</u> |
| Total assets | | <u>2,718,845</u> | <u>2,165,998</u> | <u>1,034,827</u> | <u>1,116,797</u> |
| Equity attributable to equity holders of the Company | | | | | |
| Share capital | 14 | 411,201 | 411,201 | 411,201 | 411,201 |
| Reserves | 15 | 731,855 | 508,282 | 321,842 | 248,279 |
| Total equity | | <u>1,143,056</u> | <u>919,483</u> | <u>733,043</u> | <u>659,480</u> |
| Non-current liabilities | | | | | |
| Interest-bearing liabilities | 17 | 680,149 | 807,198 | 88,149 | 311,198 |
| Deferred tax liabilities | 18 | 13,265 | – | 13,265 | – |
| | | <u>693,414</u> | <u>807,198</u> | <u>101,414</u> | <u>311,198</u> |
| Current liabilities | | | | | |
| Trade payables and accruals | 19 | 231,386 | 119,686 | 15,399 | 19,082 |
| Other payables | 20 | 155,761 | 185,649 | 257 | 224 |
| Amount due to associate (trade) | 21 | 1,916 | – | – | – |
| Current portion of interest-bearing liabilities | 17 | 450,123 | 109,321 | 146,092 | 109,321 |
| Financial derivatives | | 38,578 | 17,472 | 38,578 | 17,472 |
| Current tax payable | | 4,611 | 7,189 | 44 | 20 |
| | | <u>882,375</u> | <u>439,317</u> | <u>200,370</u> | <u>146,119</u> |
| Total liabilities | | <u>1,575,789</u> | <u>1,246,515</u> | <u>301,784</u> | <u>457,317</u> |
| Total equity and liabilities | | <u>2,718,845</u> | <u>2,165,998</u> | <u>1,034,827</u> | <u>1,116,797</u> |

The accompanying notes form an integral part of these financial statements.

Consolidated Income Statement

Year ended 31 December 2007

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|--|------|-----------------|-----------------|
| Revenue | 22 | 1,635,883 | 1,501,097 |
| Cost of sales | | (1,251,338) | (1,108,791) |
| Gross profit | | 384,545 | 392,306 |
| Other operating income | 23 | 17,743 | 19,435 |
| Distribution expenses | | (21,299) | (14,904) |
| Administrative expenses | | (69,216) | (62,932) |
| Other operating expenses | 23 | (2,093) | (24,328) |
| Results from operating activities | 23 | 309,680 | 309,577 |
| Finance income | | 36,195 | 27,735 |
| Finance expenses | | (78,525) | (55,424) |
| Net finance expenses | 25 | (42,330) | (27,689) |
| Share of results of an associate, net of tax | | 4,219 | 4,758 |
| Profit before income tax | | 271,569 | 286,646 |
| Income tax expense | 26 | (8,083) | (22,959) |
| Profit for the year attributable to equity holders of the Company | | 263,486 | 263,687 |
| Earnings per share (cents) | | | |
| Basic and diluted | 27 | 72 | 72 |

The accompanying notes form an integral part of these financial statements.

Consolidated Statement Of Changes In Equity

Year ended 31 December 2007

| | Note | Share capital RMB'000 | Share premium RMB'000 | Statutory reserve RMB'000 | Foreign currency translation reserve RMB'000 | Capital reserve RMB'000 | Accumulated profits RMB'000 | Total attributable to equity holders of the Company RMB'000 |
|--|------|--------------------------|--------------------------|------------------------------|---|----------------------------|--------------------------------|--|
| Group | | | | | | | | |
| At 1 January 2006 | | 398,965 | 9,188 | 34,721 | - | 13,941 | 244,844 | 701,659 |
| Net profit for the year/Total recognized income for the year | | - | - | - | - | - | 263,687 | 263,687 |
| Issue of bonus shares | 14 | 3,048 | - | - | - | - | (3,048) | - |
| Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005 | 14 | 9,188 | (9,188) | - | - | - | - | - |
| Transfer from accumulated profits | | - | - | 28,352 | - | - | (28,352) | - |
| One-tier tax exempt interim dividend of 4.9 RMB cents per share | 28 | - | - | - | - | - | (17,919) | (17,919) |
| One-tier tax exempt final dividend of 9.17 RMB cents per share | 28 | - | - | - | - | - | (27,944) | (27,944) |
| At 31 December 2006 | | 411,201 | - | 63,073 | - | 13,941 | 431,268 | 919,483 |
| At 1 January 2007 | | 411,201 | - | 63,073 | - | 13,941 | 431,268 | 919,483 |
| Translation differences relating to financial statements of foreign subsidiaries | | - | - | - | (46) | - | - | (46) |
| Exchange differences on monetary items forming part of net investment in foreign operations | | - | - | - | 66 | - | - | 66 |
| Net gain/(loss) recognized directly in equity | | - | - | - | 20 | - | - | 20 |
| Net profit for the year | | - | - | - | - | - | 263,486 | 263,486 |
| Total recognized income and expense for the year | | - | - | - | 20 | - | 263,486 | 263,506 |
| Transfer from accumulated profits | | - | - | 29,170 | - | - | (29,170) | - |
| One-tier tax exempt special dividend of 5.0 RMB cents per share | 28 | - | - | - | - | - | (18,284) | (18,284) |
| One-tier tax exempt final dividend of 5.92 RMB cents per share | 28 | - | - | - | - | - | (21,649) | (21,649) |
| At 31 December 2007 | | 411,201 | - | 92,243 | 20 | 13,941 | 625,651 | 1,143,056 |

The accompanying notes form an integral part of these financial statements.

Statement Of Changes In Equity

Year ended 31 December 2007

| | Note | Share capital RMB'000 | Share premium RMB'000 | Accumulated profits RMB'000 | Total RMB'000 |
|--|------|-----------------------------|-----------------------------|-----------------------------------|------------------|
| Company | | | | | |
| At 1 January 2006 | | 398,965 | 9,188 | 113,473 | 521,626 |
| Net profit for the year/Total recognized income for the year | | - | - | 183,717 | 183,717 |
| Issue of bonus shares | 14 | 3,048 | - | (3,048) | - |
| Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005 | 14 | 9,188 | (9,188) | - | - |
| One-tier tax exempt interim dividend of 4.9 RMB cents per share | 28 | - | - | (17,919) | (17,919) |
| One-tier tax exempt final dividend of 9.17 RMB cents per share | 28 | - | - | (27,944) | (27,944) |
| At 31 December 2006 | | 411,201 | - | 248,279 | 659,480 |
| At 1 January 2007 | | 411,201 | - | 248,279 | 659,480 |
| Net profit for the year/Total recognized income for the year | | - | - | 113,496 | 113,496 |
| One-tier tax exempt special dividend of 5.0 RMB cents per share | 28 | - | - | (18,284) | (18,284) |
| One-tier tax exempt final dividend of 5.92 RMB cents per share | 28 | - | - | (21,649) | (21,649) |
| At 31 December 2007 | | 411,201 | - | 321,842 | 733,043 |

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2007

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|--|------|------------------|------------------|
| Operating activities | | | |
| Profit for the year | | 263,486 | 263,687 |
| Adjustments for: | | | |
| Amortization of leasehold prepayments | 4 | 969 | 997 |
| Amortization of intangible assets | 5 | 1,279 | 723 |
| Depreciation of property, plant and equipment | 3 | 159,530 | 117,378 |
| Gain on disposal of leasehold prepayments | 23 | – | (448) |
| Gain on disposal of property, plant and equipment | 23 | (5) | (462) |
| Impairment loss on property, plant and equipment | 23 | 1,097 | 22,757 |
| Property, plant and equipment written off | 23 | 1,376 | 1,000 |
| Reversal of impairment loss on property, plant and equipment | 23 | (1,145) | – |
| Reinvestment rebate | 23 | (5,702) | (8,982) |
| Share of results of an associate | | (4,219) | (4,758) |
| Net finance expenses | 25 | 42,330 | 27,689 |
| Income tax expense | 26 | 8,083 | 22,959 |
| | | 467,079 | 442,540 |
| Changes in working capital: | | | |
| Inventories | | (150,406) | (32,593) |
| Trade and bills receivables | | (53,418) | (16,662) |
| Deposits, prepayments and other receivables | | (8,989) | (10,304) |
| Trade and other payables | | 97,454 | 30,104 |
| Balances with related parties (trade) | | 1,916 | (1,387) |
| Cash generated from operations | | 353,636 | 411,698 |
| Income taxes paid | | (16,796) | (19,146) |
| Cash flows from operating activities | | 336,840 | 392,552 |
| Investing activities | | | |
| Balances with related parties (non-trade) | | 32 | – |
| Downpayment for leasehold prepayments | | (34) | (502) |
| Dividend received from an associate | | 4,287 | 1,362 |
| Interest received | | 1,549 | 1,069 |
| Purchase of property, plant and equipment | | (433,164) | (480,509) |
| Purchase of intangible assets | | (1,014) | (438) |
| Proceeds from disposal of property, plant and equipment | | 262 | 3,962 |
| Proceeds from disposal of leasehold prepayments | | – | 2,743 |
| Reinvestment rebate | | 5,702 | 8,982 |
| Cash flows from investing activities | | (422,380) | (463,331) |

Consolidated Cash Flow Statement (Cont'd)

Year ended 31 December 2007

| | Note | 2007 RMB'000 | 2006 RMB'000 |
|--|------|-----------------|-----------------|
| Financing activities | | | |
| Increase/(Decrease) in bills payable | | 19,000 | (21,120) |
| Changes arising from settlement of the cross currency interest rate swap | | (4,494) | (678) |
| (Increase)/Decrease in deposits pledged | | (56,000) | 1,475 |
| Dividends paid | | (39,933) | (45,863) |
| Interest income arising from swap contracts | | 8,920 | 9,088 |
| Interest paid | | (68,404) | (60,332) |
| Repayment of loans granted by affiliate | | - | (28,500) |
| Proceeds from borrowings | | 660,380 | 496,000 |
| Repayment of borrowings | | (423,926) | (273,244) |
| Cash flows from financing activities | | 95,543 | 76,826 |
| Net increase in cash and cash equivalents | | 10,003 | 6,047 |
| Cash and cash equivalents at beginning of the year | | 65,848 | 59,801 |
| Cash and cash equivalents at end of the year | 13 | 75,851 | 65,848 |

During the year, the Group acquired property, plant and equipment with an aggregate cost of RMB453,031,000 [2006:RMB518,879,000] of which RMB20,600,000 [2006: RMB20,285,000] were finance costs capitalized and a net amount of RMB733,000 related to payables to suppliers of property, plant and equipment as at 31 December 2007.

Notes To The Financial Statements

These notes form an integral part of the financial statements.

The financial statements were authorized for issue by the Board of Directors on 20 February 2008.

1 Domicile and activities

SP Chemicals Ltd. (referred to as the Company) is incorporated in the Republic of Singapore and has its registered office at 15 Beach Road, #05-11 Beach Centre, Singapore 189677.

The principal activities of the Company are those relating to investment holding and the provision of consultancy services. The principal activities of the subsidiaries are set out in note 6 to the financial statements.

The immediate and ultimate holding company during the financial year is Asiawide Holdings Pte Ltd (referred to as AWH), a company incorporated in the Republic of Singapore.

The consolidated financial statements relate to the Company and its subsidiaries (together referred to as the Group) and the Group's interest in an associate.

2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities which are measured at fair value.

The financial statements are presented in Chinese Renminbi (RMB) which is the Company's functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

The preparation of financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements made by management in the application of FRSs that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the following year, are discussed in note 34.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group.

Notes To The Financial Statements (Cont'd)

2.2 Functional currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (functional currency). The financial statements of the Group and of the Company are presented in RMB, which differs from the reporting currency of the country in which the Company is domiciled as RMB is the functional currency of the major entity within the Group and of the Company.

2.3 Basis of consolidation

Business combinations

Business combinations are accounted for under the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is credited to the income statement in the period of the acquisition.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of a company so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Company.

Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Associates are accounted for using the equity method. The Group's investment includes goodwill arising on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income, expenses and equity movement of the associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interests in an associate, the carrying amount of that interest (including any long-term investments) is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Accounting for subsidiaries and associate by the Company

Investments in subsidiaries and associate are stated in the Company's balance sheet at cost less accumulated impairment losses.

2.4 Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date on which the fair value was determined.

Foreign currency differences arising on retranslation are recognized in the income statement, except for differences arising on the retranslation of monetary items that in substance form part of the Group's net investment in a foreign operation (see below).

Foreign operations

The assets and liabilities of foreign operations are translated to RMB at exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to RMB at exchange rates prevailing at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Foreign currency differences are recognized in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign exchange translation reserve is transferred to the income statement.

Net investment in a foreign operation

Exchange differences arising from monetary items that in substance form part of the Company's net investment in a foreign operation are recognized in the Company's income statement. Such exchange differences are reclassified to equity in the consolidated financial statements. When the foreign operation is disposed of, the cumulative amount in equity is transferred to the income statement as an adjustment to the profit or loss arising on disposal.

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized a part of that equipment.

Where parts of an item of property, plant and equipment comprise major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Notes To The Financial Statements (Cont'd)

Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and the cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the income statement as incurred.

Disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposals with the carrying amount of property, plant and equipment and are recognized within "other operating income" in the income statement.

Depreciation

No depreciation is provided on assets under construction. Depreciation is recognized in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:-

| | |
|------------------------|----------------|
| Leasehold buildings | 20 to 50 years |
| Infrastructure | 20 years |
| Plant and machinery | 3 to 10 years |
| Electronics equipment | 5 years |
| Furniture and fittings | 3 to 5 years |
| Motor vehicles | 5 years |

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

2.6 Leasehold prepayments

Leases of land under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases. Leasehold prepayments for land use rights are stated at cost less accumulated amortization and impairment losses. Amortization is charged to the income statement on a straight line basis over the lease term of 47.5 years to 50 years.

2.7 Intangible assets

Goodwill

Goodwill and negative goodwill arise on the acquisition of subsidiaries and associate.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill arising on the acquisition of subsidiaries is presented in intangible assets. Goodwill arising on the acquisition of associates is presented together with investments in associates.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment as described in note 2.10. Negative goodwill is recognized immediately in the income statement.

Other intangible assets

Intangible assets with finite lives are stated at cost less accumulated amortization and impairment losses.

Intangible assets that have indefinite lives or that are not available for use are stated at cost less impairment losses. Such intangible assets are tested for impairment annually as described in note 2.10.

Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date the assets are available for use. The estimated useful lives are as follows:

| | |
|------------------------|----------|
| Electricity use rights | 50 years |
| Technical know-how | 10 years |
| Computer software | 5 years |

2.8 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investment in equity securities, trade and bills receivables, deposits, prepayments and other receivables, amounts due from/due to related parties, cash and cash equivalents, trade payables and accruals and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortized cost using the effective interest rate method, less any impairment losses.

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e, the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and bank deposits.

Notes To The Financial Statements (Cont'd)

Derivative financial instruments and hedging activities

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognized in equity is transferred to the carrying amount of the asset when it is recognized. In other cases, the amount recognized in equity is transferred to the income statement in the same period that the hedged item affects profit or loss.

Fair value hedges

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in the income statement. The hedged item is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognized in the income statement and the carrying amount of the hedged item is adjusted.

Hedge of net investment in a foreign operation

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in the Company's income statement. On consolidation, such differences are recognized directly in equity, in the foreign currency translation reserve, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the income statement. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to the income statement as an adjustment to the profit or loss on disposal.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in the income statement as part of foreign currency gains and losses.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in the income statement.

Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of all equity instruments are deducted from the initial measurement of the equity instruments, net of any tax effects.

2.9 Interest-free inter-company loans

In the Company's financial statements, interest-free loans to subsidiaries are stated at fair value at inception. The difference between the fair value and the loan amount at inception is recognized as additional investments in subsidiaries in the Company's financial statements. Subsequently, these loans are measured at amortized cost using the effective interest rate method. The unwinding of the difference is recognized as interest income in the income statement over the expected repayment period.

Interest-free loans, where settlement is neither planned nor likely to occur in the foreseeable future, are in substance, part of the holding company's net investment in the entities and is stated at cost less accumulated impairment losses.

Such balances are eliminated in full in the Group's consolidated financial statements.

2.10 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the income statement.

Notes To The Financial Statements (Cont'd)

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date, and as and when indicators of impairment are identified.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement unless it reverses a previous revaluation, credited to equity, in which case it is charged to equity. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversal of impairment losses are recognized in the income statement.

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity.

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

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any allowance for write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any allowance for write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

2.12 Employee benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in the income statement when they are due.

2.13 Provision

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.14 Revenue recognition

Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and trade discounts. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the revenue can be measured reliably.

Rental income

Rental income receivable under operating leases is recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income to be received. Contingent rentals are recognized as income in the accounting period in which they are earned.

Dividend income

Dividend income is recognized in the income statement when the shareholders' right to receive payment is established.

Notes To The Financial Statements (Cont'd)

2.15 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.16 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are declared.

2.17 Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, net foreign currency gains, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognized in the income statement. Interest income is recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, net foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in the income statement. All borrowing costs are recognized in the income statement using the effective interest method, except to the extent that they are capitalized as directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale.

2.18 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on terms agreed between segments.

Segment revenue, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

(i) Business segments

The Group comprises predominantly one business segment which is the manufacture and sale of chemical products.

(ii) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the customers. Segment assets are based on the geographical location of the assets.

Notes To The Financial Statements (Cont'd)

3 Property, plant and equipment

| | Leasehold buildings | Infrastructure | Assets under construction | Plant and machinery | Electronics equipment | Furniture and fittings | Motor vehicles | Total |
|---|------------------------|----------------|---------------------------------|------------------------|--------------------------|---------------------------|-------------------|-----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Group | | | | | | | | |
| Cost | | | | | | | | |
| At 1 January 2006 | 92,268 | 23,261 | 998,191 | 412,975 | 78,839 | 6,446 | 4,694 | 1,616,674 |
| Additions | 2,901 | - | 492,955 | 13,682 | 5,015 | 3,870 | 456 | 518,879 |
| Disposals/Write-off | (998) | - | - | (33,944) | (2,099) | (444) | (467) | (37,952) |
| Reclassifications | 197,827 | 54,939 | (1,036,940) | 733,502 | 50,565 | 107 | - | - |
| At 31 December 2006 | 291,998 | 78,200 | 454,206 | 1,126,215 | 132,320 | 9,979 | 4,683 | 2,097,601 |
| At 1 January 2007 | 291,998 | 78,200 | 454,206 | 1,126,215 | 132,320 | 9,979 | 4,683 | 2,097,601 |
| Additions | 277 | 40 | 414,446 | 31,481 | 5,011 | 773 | 1,003 | 453,031 |
| Disposals/Write-off | - | - | - | (5,595) | (1,105) | (389) | (771) | (7,860) |
| Reclassifications | 62,786 | 22,376 | (632,384) | 428,654 | 91,982 | 985 | - | (25,601) |
| At 31 December 2007 | 355,061 | 100,616 | 236,268 | 1,580,755 | 228,208 | 11,348 | 4,915 | 2,517,171 |
| Accumulated depreciation and impairment losses | | | | | | | | |
| At 1 January 2006 | 24,879 | 6,807 | - | 174,553 | 62,496 | 2,616 | 1,571 | 272,922 |
| Depreciation charge for the year | 9,988 | 2,668 | - | 87,989 | 14,977 | 973 | 783 | 117,378 |
| Disposals/Write-off | (163) | - | - | (30,699) | (1,838) | (399) | (353) | (33,452) |
| Impairment losses | 3,621 | - | - | 17,404 | 1,626 | 106 | - | 22,757 |
| At 31 December 2006 | 38,325 | 9,475 | - | 249,247 | 77,261 | 3,296 | 2,001 | 379,605 |
| At 1 January 2007 | 38,325 | 9,475 | - | 249,247 | 77,261 | 3,296 | 2,001 | 379,605 |
| Depreciation charge for the year | 13,326 | 4,079 | - | 120,329 | 19,693 | 1,308 | 795 | 159,530 |
| Disposals/Write-off | - | - | - | (4,427) | (927) | (350) | (523) | (6,227) |
| Impairment losses | - | - | - | 1,019 | 78 | - | - | 1,097 |
| Reversal of impairment losses | - | - | - | (1,046) | (99) | - | - | (1,145) |
| At 31 December 2007 | 51,651 | 13,554 | - | 365,122 | 96,006 | 4,254 | 2,273 | 532,860 |

| | Leasehold buildings | Infrastructure | Assets under construction | Plant and machinery | Electronics equipment | Furniture and fittings | Motor vehicles | Total |
|------------------------|------------------------|----------------|---------------------------------|------------------------|--------------------------|---------------------------|-------------------|-----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Carrying amount | | | | | | | | |
| At 1 January 2006 | 67,389 | 16,454 | 998,191 | 238,422 | 16,343 | 3,830 | 3,123 | 1,343,752 |
| At 31 December 2006 | 253,673 | 68,725 | 454,206 | 876,968 | 55,059 | 6,683 | 2,682 | 1,717,996 |
| At 31 December 2007 | 303,410 | 87,062 | 236,268 | 1,215,633 | 132,202 | 7,094 | 2,642 | 1,984,311 |

Property, plant and equipment with a total carrying value of RMB91,286,000 (2006: RMB104,314,000) are pledged as security to banks for banking facilities granted to a subsidiary (see note 17).

Property, plant and equipment includes interest of RMB20,600,000 (2006: RMB20,285,000) capitalized during the year (see note 25).

Management of the Group had carried out a review of the recoverable amount of its property, plant and equipment in the previous financial year which resulted in the recognition of impairment losses of approximately RMB22,757,000. The impairment loss represented the write-down of certain items of the production facilities to their estimated realizable value. These production equipment were no longer in use as the Group had ceased production on these production facilities, following the commencement of the operations of the new production facilities during the year, and certain products were discontinued due to low market demands. The impairment loss was recognized in the income statement for the year ended 31 December 2006 under "other operating expenses". In 2007, some of these items of property, plant and equipment were transferred and used in other production facilities, and hence, a reversal of impairment loss amounting to RMB1,145,000 were recognized in the income statement for the year under "other operating expenses".

During the current year, management recognized additional impairment losses amounting to RMB1,097,000, under "other operating expenses", due to certain production equipment were not able to perform up to their optimal capacities, and had not been utilized for a period of time.

During the year, technical know-how amounting to RMB25,601,000 which was previously classified in assets under construction, was reclassified to intangible assets.

Notes To The Financial Statements (Cont'd)

| Company | Furniture and fittings RMB'000 | Electronics equipment RMB'000 | Total RMB'000 |
|----------------------------------|-----------------------------------|----------------------------------|------------------|
| Cost | | | |
| At 1 January 2006 | 20 | 122 | 142 |
| Additions | - | 34 | 34 |
| At 31 December 2006 | 20 | 156 | 176 |
| At 1 January 2007 | 20 | 156 | 176 |
| Additions | - | 286 | 286 |
| At 31 December 2007 | 20 | 442 | 462 |
| Accumulated depreciation | | | |
| At 1 January 2006 | 8 | 74 | 82 |
| Depreciation charge for the year | 4 | 37 | 41 |
| At 31 December 2006 | 12 | 111 | 123 |
| At 1 January 2007 | 12 | 111 | 123 |
| Depreciation charge for the year | 4 | 59 | 63 |
| At 31 December 2007 | 16 | 170 | 186 |
| Carrying amount | | | |
| At 1 January 2006 | 12 | 48 | 60 |
| At 31 December 2006 | 8 | 45 | 53 |
| At 31 December 2007 | 4 | 272 | 276 |

4 Leasehold prepayments

| | 2007 | 2006 |
|---------------------------------|---------|---------|
| | RMB'000 | RMB'000 |
| Group | | |
| Cost | | |
| At 1 January | 49,289 | 40,769 |
| Additions | – | 11,263 |
| Disposals | – | (2,743) |
| At 31 December | 49,289 | 49,289 |
| Accumulated amortization | | |
| At 1 January | 3,799 | 3,250 |
| Charge for the year | 969 | 997 |
| Disposals | – | (448) |
| At 31 December | 4,768 | 3,799 |
| Carrying amount | | |
| At 31 December | 44,521 | 45,490 |

The leasehold prepayments represent payments for land use rights relating to 4 (2006: 4) pieces of land situated in the People's Republic of China (PRC) on which the buildings of the Group are erected. The 4 (2006: 4) leases run for an initial period of 50 years commencing on 23/1/1997, 25/4/1998, 7/9/2005 and 30/12/2005, respectively (2006: 23/1/1997, 25/4/1998, 7/9/2005 and 30/12/2005). The Group has the options to renew the leases subject to the renegotiations of the terms. None of the leases include contingent rentals.

Leasehold prepayments with a carrying amount of RMB13,688,000 (2006: RMB14,048,000) are pledged as security for banking facilities granted to a subsidiary (see note 17).

Notes To The Financial Statements (Cont'd)

5 Intangible assets

| | Technical know- how RMB'000 | Electricity use rights RMB'000 | Computer software RMB'000 | Total RMB'000 |
|--|-----------------------------------|--------------------------------------|---------------------------------|------------------|
| Group | | | | |
| Cost | | | | |
| At 1 January 2006 | - | 9,309 | 2,455 | 11,764 |
| Additions | - | - | 438 | 438 |
| At 31 December 2006 | - | 9,309 | 2,893 | 12,202 |
| At 1 January 2007 | - | 9,309 | 2,893 | 12,202 |
| Reclassification from assets under construction | 25,601 | - | - | 25,601 |
| Additions | - | - | 1,014 | 1,014 |
| At 31 December 2007 | 25,601 | 9,309 | 3,907 | 38,817 |
| Accumulated amortization | | | | |
| At 1 January 2006 | - | 1,470 | 1,053 | 2,523 |
| Amortization charge for the year | - | 196 | 527 | 723 |
| At 31 December 2006 | - | 1,666 | 1,580 | 3,246 |
| At 1 January 2007 | - | 1,666 | 1,580 | 3,246 |
| Amortization charge for the year | 427 | 196 | 656 | 1,279 |
| At 31 December 2007 | 427 | 1,862 | 2,236 | 4,525 |
| Carrying amount | | | | |
| At 1 January 2006 | - | 7,839 | 1,402 | 9,241 |
| At 31 December 2006 | - | 7,643 | 1,313 | 8,956 |
| At 31 December 2007 | 25,174 | 7,447 | 1,671 | 34,292 |

6 Subsidiaries

| | Note | Company | |
|---------------------------------|-------|-----------------|-----------------|
| | | 2007 RMB'000 | 2006 RMB'000 |
| Unquoted equity shares, at cost | (i) | 726,108 | 642,993 |
| Amounts due from subsidiaries | | | |
| - Loans | (ii) | 91,308 | 316,253 |
| - Non-trade | (iii) | 8,136 | - |
| | | <u>825,552</u> | <u>959,246</u> |

- (i) The paid-in capital of a subsidiary was increased by US\$11,000,000 (2006: US\$21,563,825) through reinvestment of dividends declared by the subsidiary to provide additional working capital to the subsidiary;
- (ii) The Company granted a long term loan of US\$70,000,000 (RMB546,609,000) to its subsidiary, which is repayable in 13 quarterly instalments, commencing on 13 December 2006 and ending on 14 December 2009. The long term loan granted is unsecured and bears interest at a rate of 1.65% above Singapore Interbank Offered Rate (SIBOR) (2006: 1.65% above SIBOR) per annum; and
- (iii) The non-trade amounts due from subsidiaries comprising foreign currency balances amounting to US\$1,114,000 (RMB8,136,000), have been determined to form part of the Company's net investments in the subsidiaries. The non-trade amounts due from subsidiaries are unsecured and interest free, and settlement is neither planned nor likely to occur in the foreseeable future. As the amounts are, in substance, a part of the Company's net investments in the subsidiaries, it is stated at cost.

Details of the subsidiaries are as follows:

| Name of subsidiary | Principal activities | Place of incorporation and business | Effective equity interest held | |
|---------------------------------------|--|---|-----------------------------------|-----------|
| | | | 2007 % | 2006 % |
| * SP Chemicals (Taixing) Co., Ltd. | Manufacture and sale of chemical products | PRC | 100 | 100 |
| ** SP Chemicals Corporation | Investment holding company | British Virgin Islands | 100 | - |
| + SP Chemicals (Vietnam) Pte Ltd | Investment holding company | Singapore | 100 | - |

* Audited by Taixing Yongxin Certified Public Accountants, a member of the Chinese Institute of Certified Public Accountants, for statutory purpose. Audited by KPMG Singapore for consolidation purposes.

** Not required to be audited under the law of its country of incorporation. Audited by KPMG Singapore for consolidation purposes.

+ Audited by KPMG Singapore.

Notes To The Financial Statements (Cont'd)

7 Associate

| | Group | | Company | |
|-----------------------------------|---------|---------|---------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Investment in an associate | 15,000 | 15,000 | 15,000 | 15,000 |
| Share of post-acquisition profits | 10,278 | 10,346 | - | - |
| | 25,278 | 25,346 | 15,000 | 15,000 |

Details of the associate are as follows:

| Name of associate | Principal activities | Place of incorporation and business | Effective equity interest held | |
|--|---|-------------------------------------|--------------------------------|-------|
| | | | 2007 | 2006 |
| | | | % | % |
| Anhui Huatai Chemical Industries Co., Ltd. | Manufacture and sale of chemical products | PRC | 26.79 | 26.79 |

Summarized financial information on the associate is set out below:

| | 2007 | 2006 |
|-------------------------------|---------|---------|
| | RMB'000 | RMB'000 |
| Assets and liabilities | | |
| Total assets | 200,049 | 203,150 |
| Total liabilities | 103,652 | 106,500 |
| Results | | |
| Revenue | 261,926 | 200,178 |
| Profit after income tax | 15,748 | 17,760 |

The Group's share of the capital commitments of the associate is nil (2006: Nil).

There were no contingent liabilities as at 31 December 2007 (2006: Nil).

The summarized financial information is not adjusted for the percentage of ownership held by the Group.

The associate is not considered significant in accordance with Rule 718 of the SGX-ST Listing Manual. For this purpose, an associate is considered significant as defined under the SGX Listing Manual, if the Group's share of its net tangible assets represent 20% or more of the Group's consolidated net tangible assets, or if the Group's share of its pre-tax profits account for 20% or more of the Group's consolidated pre-tax profits.

8 Staff loans and advances

| | Note | Group | |
|-------------|------|-----------------|-----------------|
| | | 2007 RMB'000 | 2006 RMB'000 |
| Current | 11 | 611 | 505 |
| Non-current | | 3,198 | 2,536 |
| | | <u>3,809</u> | <u>3,041</u> |

Included in the above amounts are staff loans of RMB3,576,000 (2006: RMB2,795,000). The staff loans are granted in accordance with an employee loan scheme approved by the directors of a subsidiary. They are unsecured and bear interest at a rate of 2% (2006: 2%) per annum, and are repayable up to a maximum period of 10 years (2006: 10 years).

Staff loans amounting to RMB55,000 (2006: RMB62,000) are granted to certain directors of the subsidiary.

9 Inventories

| | Group | |
|------------------------------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| Raw materials | 149,240 | 49,985 |
| Work-in-progress | 12,372 | 14,242 |
| Finished goods | | |
| - at cost | 41,654 | 29,698 |
| - at fair value less costs to sell | 42,832 | 2,054 |
| Spare parts and consumables | 17,735 | 17,448 |
| | <u>263,833</u> | <u>113,427</u> |

In 2007, raw materials, spare parts and consumables, and changes in finished goods and work-in-progress, recognized in cost of sales, amounted to RMB1,012,283,000 (2006: RMB930,922,000).

Owing to the fall in prices of certain finished goods, the write-down of finished goods amounting to RMB3,593,000 (2006: RMB2,285,000) was recognized by the Group during the year. The write-down was included in cost of sales.

Notes To The Financial Statements (Cont'd)

10 Trade and bills receivables

| | Group | |
|---------------------------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| Trade receivables | 24,436 | 38,314 |
| Bills receivables | 112,574 | 45,278 |
| | 137,010 | 83,592 |
| Allowance for impairment losses | (104) | (205) |
| Net receivables | 136,906 | 83,387 |

The trade receivables of the Group are denominated in the following currencies:

| | 2007 RMB'000 | 2006 RMB'000 |
|-----------------------|-----------------|-----------------|
| RMB | 24,436 | 7,614 |
| United States dollars | - | 30,700 |
| | 24,436 | 38,314 |

Bill receivables, which are denominated in RMB and generally have 1 to 6 months terms, are interest-free and backed by the credibility of banks. Bills receivables are carried at cost, being the fair value of the consideration given.

The Group's primary exposure to credit risk arises through its trade receivables. Concentration of credit risk relating to trade receivables is limited due to the Group's many varied customers. These customers are engaged in a wide spectrum of manufacturing and distribution activities, and sell in a variety of end markets. The Group's historical experience in the collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables.

11 Deposits, prepayments and other receivables

| | Note | Group | | Company | |
|---|------|-----------------|-----------------|-----------------|-----------------|
| | | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| Deposits | | 350 | 113 | 50 | 51 |
| Prepayments | | 6,962 | 1,009 | 125 | 173 |
| Advances to suppliers of property, plant and equipment | | 13,572 | 48,917 | - | - |
| Downpayment for leasehold prepayments | | 26,498 | 26,464 | - | - |
| Advances to suppliers | | 26,120 | 22,840 | - | - |
| Staff loans and advances | 8 | 611 | 505 | - | - |
| Tax recoverable | | 19,401 | - | - | - |
| Other receivables | | 1,141 | 3,132 | 28 | 533 |
| | | <u>94,655</u> | <u>102,980</u> | <u>203</u> | <u>757</u> |

Advances to suppliers of property, plant and equipment of the Group are denominated in the following currencies:

| | 2007 RMB'000 | 2006 RMB'000 |
|-----------------------|-----------------|-----------------|
| RMB | 2,922 | 41,764 |
| Euro | 9,014 | 451 |
| United States dollars | 1,636 | 6,702 |
| | <u>13,572</u> | <u>48,917</u> |

Advances to suppliers of the Group are denominated in the following currencies:

| | 2007 RMB'000 | 2006 RMB'000 |
|-----------------------|-----------------|-----------------|
| RMB | 25,752 | 20,111 |
| United States dollars | 368 | 2,729 |
| | <u>26,120</u> | <u>22,840</u> |

The rest of the balances are mainly denominated in Chinese Renminbi.

Notes To The Financial Statements (Cont'd)

12 Amounts due from related parties

| | Group | | Company | |
|-----------------------|---------|---------|---------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Subsidiary | | | | |
| - loan | - | - | 146,092 | 109,321 |
| - non-trade | - | - | 850 | 16,575 |
| Associate (non-trade) | - | 32 | - | 7 |
| | - | 32 | 146,942 | 125,903 |

The loan to a subsidiary is unsecured and is repayable in 13 quarterly instalments commencing on 13 December 2006 and ending on 14 December 2009. Interest is charged at 1.65% above SIBOR (2006: 1.65% above SIBOR) per annum.

The non-trade amount due from subsidiary is unsecured and interest-free, and is repayable on demand. The non-trade amount due from associate was unsecured and interest-free, and was fully repaid during the current financial year.

13 Cash and cash equivalents

| | Group | | Company | |
|--|----------|---------|---------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cash at banks and in hand | 34,513 | 54,066 | 5,516 | 4,056 |
| Fixed deposits with banks | 97,338 | 11,782 | 41,338 | 11,782 |
| Cash and cash equivalents | 131,851 | 65,848 | 46,854 | 15,838 |
| Deposits pledged | (56,000) | - | | |
| Cash and cash equivalents in the cash flow statement | 75,851 | 65,848 | | |

The weighted average effective interest rates per annum relating to cash and cash equivalents at the balance sheet date for the Group and the Company range from 0.02% to 3.87% (2006: 0.69% to 3.09%) and 0.02% to 0.43% (2006: 0.69% to 3.09%), respectively. Interest rates reprice at intervals of one day to one month.

Deposits pledged represent bank balances of the subsidiary pledged as security to secure credit facilities and bank loans.

14 Share capital

| | 2007 | 2007 | 2007 | 2006 | 2006 | 2006 |
|---|-------------|--------|---------|-------------|--------|---------|
| | Number | S\$ | RMB | Number | S\$ | RMB |
| | of shares | ('000) | ('000) | of shares | ('000) | ('000) |
| Group and Company | | | | | | |
| Fully paid ordinary shares, with no par value: | | | | | | |
| At 1 January | 365,685,294 | 78,934 | 411,201 | 304,737,749 | 76,184 | 398,965 |
| Issue of bonus shares | - | - | - | 60,947,545 | 614 | 3,048 |
| Transfer from share premium account to share capital | - | - | - | - | 2,136 | 9,188 |
| At 31 December | 365,685,294 | 78,934 | 411,201 | 365,685,294 | 78,934 | 411,201 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

On 24 March 2006, a bonus issue of 60,947,545 fully paid ordinary shares was made by the Company to existing shareholders, in the proportion of one share for every five shares held, by the application of the Company's accumulated profits of RMB3.0 million.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as profit attributable to equity holders of the Company divided by total shareholders' equity. The Board also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's return on shareholders' equity in 2007 was 29% (2006: 38%). In comparison the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 6.48% (2006: 6.68%).

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries are not subject to externally imposed capital requirements.

Notes To The Financial Statements (Cont'd)

15 Reserves

| | Note | Group | | Company | |
|--------------------------------------|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| Statutory reserve | (i) | 92,243 | 63,073 | - | - |
| Capital reserve | (ii) | 13,941 | 13,941 | - | - |
| Foreign currency translation reserve | (iii) | 20 | - | - | - |
| Accumulated profits | (iv) | 625,651 | 431,268 | 321,842 | 248,279 |
| | | 731,855 | 508,282 | 321,842 | 248,279 |

(i) Statutory reserve

The subsidiary of the Company which is established in the PRC follows the accounting principles and relevant financial regulations of the People's Republic of China ("PRC GAAP") applicable to wholly-owned foreign investment enterprises in the preparation of the accounting records and statutory financial statements.

The wholly-owned subsidiary is required to appropriate 10% of the profit arrived at in accordance with PRC GAAP for each year to the statutory reserve.

The profit arrived at must be set-off against any accumulated losses sustained by the subsidiary in prior years, before allocation is made to the statutory reserve. Appropriation to the statutory reserve must be made before distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends. The statutory reserve may be used to set off losses or be converted into paid-in capital.

(ii) Capital reserve

The capital reserve arose due to the capitalization of statutory reserve by a subsidiary to increase its paid-in capital.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises:

- (a) foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the functional currency of the Company; and
- (b) the exchange differences on monetary items which form part of the Group's net investment in foreign operations, provided certain conditions are met.

(iv) Accumulated profits

The accumulated profits of the Group include accumulated profit of RMB10,278,000 (2006: RMB10,346,000) attributable to an associate.

16 Employee share options

The SP Employee Share Option Scheme (the SP Scheme) of the Company was approved and adopted by its members at an Extraordinary General Meeting held on 21 July 2003. The SP Scheme is administered by the Company's Remuneration Committee comprising three directors: Mr Quek Cher Teck, Ms Rachel Eng Yaag Ngee and Mr Ng Tat Pun.

Information regarding the SP Scheme is as follows:-

(i) Participants

Under the terms of the Remuneration Committee, the Remuneration Committee may make offers of the grant of options to:

- (a) employees and directors (including non-executive directors) of the Group;
- (b) employees of an associate; and
- (c) executive officers and directors (including executive directors and non-executive directors) of the ultimate holding company, Asiawide Holdings Pte Ltd and its subsidiaries (other than controlling shareholders and their associates), who have contributed to the success and development of the Group.

Controlling shareholders and their associates are not eligible to participate in the SP Scheme.

The aggregate number of shares to be made available to employees of the Company's associate shall not exceed twenty percent of the shares available under the SP Scheme, and the aggregate number of shares to be made available to executive officers and directors of the ultimate holding company and its subsidiaries shall not exceed twenty percent of the shares available under the SP Scheme.

For this purpose, a company is an "associate" if the Company and/or its subsidiaries hold at least twenty percent but not more than fifty percent of the issued shares in that company, and if the Company and/or its subsidiaries have the capacity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of that company.

Notes To The Financial Statements (Cont'd)

(ii) Scheme Size

The aggregate number of shares over which the options may be granted pursuant to the SP Scheme shall not exceed fifteen percent of the issued share capital of the Company on the date preceding the grant of an option.

(iii) Exercise Price

Under the rules of the SP Scheme, options may be granted at exercise prices:-

- (a) at the prevailing market price based on the average of the last dealt price per share as reported in the Business Times for the five consecutive trading days immediately preceding the date of grant (Market Price); or
- (b) at a price which is set at a discount to the Market Price, provided that:-
 - the maximum discount shall not exceed twenty percent of the Market Price; and
 - the discount must have been approved by shareholders in a separate resolution.

(iv) Option Exercise Period

The SP Scheme shall be in force up to a maximum period of 10 years from the date on which the SP Scheme was implemented. The SP Scheme may continue beyond the stipulated period with the approval of shareholders by way of ordinary resolution in general meeting and of any relevant authorities which may then be required.

There are no options granted or vested since the commencement of the SP Scheme.

17 Interest-bearing liabilities

| | Group | | Company | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| Non-current bank loans | | | | |
| Secured bank loans | 65,000 | 139,000 | - | - |
| Unsecured bank loans | 615,149 | 668,198 | 88,149 | 311,198 |
| | 680,149 | 807,198 | 88,149 | 311,198 |
| Current bank loans | | | | |
| Secured bank loans | 126,043 | - | - | - |
| Unsecured bank loans | 324,080 | 109,321 | 146,092 | 109,321 |
| | 450,123 | 109,321 | 146,092 | 109,321 |
| Total borrowings | 1,130,272 | 916,519 | 234,241 | 420,519 |

Terms and debt repayment schedule

Terms and conditions of outstanding loans and borrowings are as follows:

| | Nominal interest rate | Year of maturity | 2007 | | 2006 | |
|--------------------------|---------------------------|------------------|-----------------------|----------------------------|-----------------------|----------------------------|
| | | | Face value RMB'000 | Carrying amount RMB'000 | Face value RMB'000 | Carrying amount RMB'000 |
| Group | | | | | | |
| US\$ floating rate loans | LIBOR + 0.80% to 1.00% | 2008 | 148,031 | 148,031 | - | - |
| US\$ floating rate loan | SIBOR + 1.65% | 2006 - 2009 | 237,399 | 234,241 | 425,574 | 420,519 |
| RMB floating rate loans | 6.48% | 2008 | 67,000 | 67,000 | - | - |
| RMB fixed rate loans | 5.67% to 6.93% | 2008 - 2011 | 681,000 | 681,000 | 496,000 | 496,000 |
| | | | 1,133,430 | 1,130,272 | 921,574 | 916,519 |
| Company | | | | | | |
| US\$ floating rate loan | SIBOR + 1.65% | 2006 - 2009 | 237,399 | 234,241 | 425,574 | 420,519 |

A negative pledge against certain assets of a subsidiary was provided in respect of a US\$ floating rate bank loan.

Notes To The Financial Statements (Cont'd)

Bank loans totalling RMB191,043,000 (2006: RMB139,000,000) are secured on the following assets with net carrying values of:

| | Group | |
|---|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| Leasehold prepayments (land use rights) | 13,688 | 14,048 |
| Leasehold buildings | 27,445 | 29,603 |
| Plant and machinery | 61,533 | 72,403 |
| Electronics equipment | 2,308 | 2,308 |
| Fixed deposit | 54,100 | - |
| | 159,074 | 118,362 |

18 Deferred tax liabilities

Movements in deferred tax liabilities of the Group and the Company during the year are as follows:

| | At 1 January 2007 RMB'000 | Recognized in income statement (note 26) RMB'000 | At 31 December 2007 RMB'000 |
|--------------------------|---------------------------------|--|-----------------------------------|
| Investment in subsidiary | - | 13,265 | 13,265 |

As at 31 December 2007, deferred tax liabilities related to taxable temporary difference on undistributed profits of the Group's subsidiary in the PRC.

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following temporary differences:

| | Group | |
|--------------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| Income tax rebates | 57,616 | - |

Deferred tax assets have not been recognized in respect of the income tax rebates which a subsidiary is entitled to for the purchase of equipment manufactured in PRC in view of the uncertainty over the approval of the income tax rebates to be obtained from the relevant PRC tax authority.

19 Trade payables and accruals

| | Group | | Company | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| Trade payables | 123,749 | 47,488 | - | - |
| Bills payable | 19,000 | - | - | - |
| Accrued interest payable | 3,932 | 2,487 | 850 | 1,575 |
| Employee benefits | 11,075 | 9,570 | - | - |
| Accrued operating expenses | 51,696 | 39,750 | 14,549 | 17,507 |
| Value added tax payable | 21,934 | 20,391 | - | - |
| | <u>231,386</u> | <u>119,686</u> | <u>15,399</u> | <u>19,082</u> |

Trade payables and accruals of the Group are denominated in the following currencies:

| | 2007 RMB'000 | 2006 RMB'000 |
|-----------------------|-----------------|-----------------|
| RMB | 208,436 | 100,451 |
| Singapore dollars | 14,575 | 17,507 |
| United States dollars | 8,375 | 1,728 |
| | <u>231,386</u> | <u>119,686</u> |

Trade payables and accruals of the Company are mainly denominated in Singapore dollars.

Bills payable are secured on fixed deposits amounting to RMB1,900,000.

20 Other payables

| | Group | | Company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| Deposits received | 7,688 | 7,913 | - | - |
| Suppliers of property, plant and equipment | 125,340 | 161,415 | - | - |
| Advances from customers received | 18,039 | 10,117 | - | - |
| Other payables | 4,694 | 6,204 | 257 | 224 |
| | <u>155,761</u> | <u>185,649</u> | <u>257</u> | <u>224</u> |

Notes To The Financial Statements (Cont'd)

Amounts owing to suppliers of property, plant and equipment of the Group are denominated in the following currencies:

| | 2007 | 2006 |
|-----------------------|---------|---------|
| | RMB'000 | RMB'000 |
| RMB | 110,952 | 160,475 |
| United States dollars | 14,282 | 940 |
| Euro | 106 | - |
| | 125,340 | 161,415 |

Advances from customers of the Group are mainly denominated in Chinese Renminbi.

21 Amount due to associate (trade)

Transactions with associate are unsecured and priced on terms agreed between the related parties.

22 Revenue

Revenue of the Group represents the net invoiced value of goods sold or delivered to customers in the normal course of business. All inter-company transactions have been eliminated in arriving at the Group's revenue.

23 Profit for the year

The following items have been included in arriving at profit for the year:

| | Group | |
|---|---------|---------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| Other operating income | | |
| Handling charges | 3,115 | 2,755 |
| Reinvestment rebate* | 5,702 | 8,982 |
| Sales of by-products | 5,985 | 4,105 |
| Rental income | - | 150 |
| Gain on disposal of property, plant and equipment | 5 | 462 |
| Gain on disposal of leasehold prepayments | - | 448 |
| Others | 2,936 | 2,533 |
| | 17,743 | 19,435 |

* The Company was granted a reinvestment rebate by Taixing City Tax Authorities (泰兴市国家税务局) for the reinvestment of dividend income in a subsidiary as paid-in capital.

| | Group | |
|---|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| Other operating expenses | | |
| Property, plant and equipment written off | 1,376 | 1,000 |
| Impairment loss on property, plant and equipment | 1,097 | 22,757 |
| Reversal of impairment loss on property, plant and equipment | (1,145) | - |
| Others | 765 | 571 |
| | 2,093 | 24,328 |
| Other items in income statement: | | |
| Amortization of intangible assets | 1,279 | 723 |
| Amortization of leasehold prepayments | 969 | 997 |
| Depreciation of property, plant and equipment | 159,530 | 117,378 |
| Non-audit fees paid to auditors of the Company | - | 15 |
| Inventories written off | - | 63 |
| Operating lease expenses | 870 | 509 |
| Professional fee paid to a firm in which a director is a member | 211 | 108 |
| Staff costs | 64,136 | 65,865 |
| Contributions to defined contribution plans included in staff costs | 11,328 | 10,614 |
| Write-down of inventories to net realizable value | 3,593 | 2,285 |
| | 2,093 | 24,328 |

24 Key management personnel compensation

Key personnel management of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group. The Directors of the Company, and the Executive Officers of the Group are considered as the key management personnel of the Group.

Remuneration paid/payable to key management personnel comprised:

| | Group | |
|------------------------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| Short-term employee benefits | 18,311 | 19,526 |

Notes To The Financial Statements (Cont'd)

25 Finance income and expense

| | Note | Group | |
|--|------|-----------------|-----------------|
| | | 2007 RMB'000 | 2006 RMB'000 |
| Recognized in the income statement | | | |
| Foreign exchange gain | | 26,111 | 17,207 |
| Interest income: | | | |
| - cash and cash equivalents | | 1,578 | 1,087 |
| - swap contracts | | 8,405 | 9,166 |
| Reversal of allowance on impairment of trade receivables | | 101 | 275 |
| Finance income | | <u>36,195</u> | <u>27,735</u> |
| Interest expense: | | | |
| - banks | | 71,485 | 62,086 |
| - affiliate | | - | 466 |
| Net change in fair value of swap contracts | | 22,882 | 12,297 |
| Settlement of cross currency interest rate swap | | 4,494 | 678 |
| Unaccreted discount on staff loans | | 264 | 182 |
| Total finance costs | | <u>99,125</u> | <u>75,709</u> |
| Less: | | | |
| Finance costs capitalized in property, plant and equipment | 3 | <u>(20,600)</u> | <u>(20,285)</u> |
| Finance expense | | <u>78,525</u> | <u>55,424</u> |
| Net finance expenses recognized in income statement | | <u>(42,330)</u> | <u>(27,689)</u> |

The finance costs have been capitalized at a rate of 5.75% to 7.46% (2006: 5.72% to 6.97%) per annum for property, plant and equipment.

26 Income tax expense

| | Group | |
|--|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| Current tax expense | | |
| Current year | 18,825 | 19,366 |
| Tax rebates | (26,444) | - |
| Underprovided in prior years | 24 | 9 |
| Foreign tax suffered | 2,413 | 3,584 |
| | (5,182) | 22,959 |
| Deferred tax expense | | |
| Movement of temporary differences | 13,265 | - |
| Total income tax expense | 8,083 | 22,959 |
| Reconciliation of effective tax rate | | |
| Profit before income tax (excluding share of results of associate) | 267,350 | 281,888 |
| Income tax using the applicable PRC tax rate of 15% (2006: 15%) | 40,103 | 42,283 |
| Effects of different tax rates in other countries | (793) | 3,122 |
| Expenses not deductible for tax purposes | 9,135 | 9,020 |
| Foreign tax suffered | 2,413 | 3,584 |
| Income not subject to tax | (1,181) | (6,216) |
| Effect of temporary differences relating to undistributed profits of the Group's subsidiary in the PRC | 13,265 | - |
| Tax concessions | (27,742) | (27,441) |
| Tax rebates | (26,444) | - |
| Underprovided in prior years | 24 | 9 |
| Others | (697) | (1,402) |
| | 8,083 | 22,959 |

Notes To The Financial Statements (Cont'd)

27 Earnings per ordinary share

(i) Basic earnings per share

| | Group | |
|--|--------------------------|--------------------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| Basic earnings per share is based on: | | |
| Net profit attributable to ordinary shareholders | 263,486 | 263,687 |
| | | |
| | 2007 No. of shares | 2006 No. of shares |
| Issued ordinary shares at beginning of the year | 365,685,294 | 304,737,749 |
| Effect of bonus shares issued | - | 60,947,545 |
| Weighted average number of ordinary shares during the year | 365,685,294 | 365,685,294 |

(ii) Diluted earnings per share

There were no dilutive potential ordinary shares in existence for the current and previous financial years.

28 Dividends

| | Company | |
|---|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 |
| One-tier tax exempt interim dividend of 4.9 RMB cents per share paid in respect of year ended 31 December 2006 on 365,685,294 shares | - | 17,919 |
| One-tier tax exempt special dividend of 5.0 RMB cents per share paid in respect of year ended 31 December 2006 on 365,685,294 shares | 18,284 | - |
| One-tier tax exempt final dividend of 5.92 RMB cents (2006: 9.17 RMB cents) per share paid in respect of year ended 31 December 2006 (2006: Year ended 31 December 2005) on 365,685,294 shares (2006: 304,737,749 shares) | 21,649 | 27,944 |
| | 39,933 | 45,863 |

After the balance sheet date, the Directors proposed the following dividends. These dividends have not been provided for:

| | 2007 RMB'000 | 2006 RMB'000 |
|--|-----------------|-----------------|
| One-tier tax exempt final dividend proposed of 7.2 RMB cents (2006: 5.92 RMB cents) per share in respect of year ended 31 December 2007 (2006: Year ended 31 December 2006) on 365,685,294 shares (2006: 365,685,294 shares) | 26,329 | 21,649 |
| One-tier tax exempt special dividend proposed of 5.0 RMB cents per share in respect of year ended 31 December 2006 on 365,685,294 shares | - | 18,284 |
| | <u>26,329</u> | <u>39,933</u> |

29 Commitments

Capital commitments

Commitments of the Group not reflected in the financial statements at the balance sheet date are as follows:

| | 2007 RMB'000 | 2006 RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Capital expenditure | | |
| - authorized but not contracted for | 556,545 | 151,724 |
| - contracted but not provided for | 62,305 | 105,311 |
| | <u>618,850</u> | <u>257,035</u> |

Operating lease commitments

As at 31 December 2007, the Group and the Company have commitments for future minimum lease payments under non-cancellable operating leases as follows:

| | Group | | Company | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2007 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | 2006 RMB'000 |
| Within 1 year | 1,014 | 323 | 482 | 300 |
| After 1 year but within 5 years | 505 | 691 | - | 600 |
| After 5 years | - | 1 | - | - |
| | <u>1,519</u> | <u>1,015</u> | <u>482</u> | <u>900</u> |

Notes To The Financial Statements (Cont'd)

30 Significant related party transactions

Identity of related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence. Related parties may be individuals or other entities.

In addition to the related parties information disclosed elsewhere in the financial statements, there were the following significant transactions which were carried out with related parties in the normal course of business on terms agreed between the parties:

Immediate and ultimate holding company

| | Group | | Company | |
|---|---------|---------|---------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Rental of office premises and use of furniture, fitting, fixtures and equipment | 482 | 481 | 482 | 481 |

The Company entered into a sub-lease agreement with AWH for the lease of office premises. Rental expense comprises monthly office rental of RMB25,091 (S\$5,000) [2006: RMB25,015 (S\$5,000)] and monthly fee of RMB15,055 (S\$3,000) [2006: RMB15,009 (S\$3,000)] for the use of furniture, fitting, fixtures and equipment from 1 January 2006 to 31 December 2008.

Related corporation

| | Group | | Company | |
|---------------------------|---------|---------|---------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Rental of office premises | 408 | - | - | - |

During the year ended 31 December 2007, the Group entered into a lease agreement with a related corporation for the lease of office premises for monthly rental of RMB34,000 from 1 January 2007 to 31 December 2009.

Associate

During the year ended 31 December 2007, the Group purchased raw materials from an associate amounting to RMB37,319,000 (2006: RMB31,030,000) and at 31 December 2007, the amount owing to the associate was RMB1,916,000 (2006: Nil). Transactions with the associate are carried out on terms agreed between the parties.

31 Contingent liability (unsecured)

The Group had unsecured contingent liability in respect of a guarantee issued by SP Chemicals (Taixing) Co., Ltd. (“SP Taixing”) in favour of the China Construction Bank for a loan of RMB34,776,229 (US\$4,760,867) [2006: RMB37,176,182 (US\$4,760,867)] granted to a third party, Jiangsu Taixing Waste Water Treatment Plant (江苏泰兴市污水处理厂). The outstanding balance as at 31 December 2007 was RMB21,349,293 (US\$2,922,719) [2006: RMB25,507,651 (US\$3,266,568)]. The repayment term of the loan is thirty and a half years and is expected to be settled by November 2030. The guarantee provided by SP Taixing will remain in force for two years after the final repayment date of the loan facility. The Group in turn obtained a counter guarantee for the same amount from Taixing City Financial Bureau (泰兴市财政局) and a third party, Taixing City Yanjiang Chemical (Group) General Company (泰兴市沿江化工(集团)总公司).

32 Financial risk management

Overview

The Group has exposure to the following risks from the use of financial instruments:

- credit risk
- liquidity risk
- market risk
- currency risk
- interest rate risk

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Group’s risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Notes To The Financial Statements (Cont'd)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from the customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The Group's revenue is attributable to sales transactions with more than 80% of its customers from PRC.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer and customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

Most of the Group's customers are regular customers, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables. To minimize exposure to credit risk, the Group obtains bills receivables from customers. The Group only accepts bills and notes issued from financial institutions that are regulated.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures. There is no collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified as, historically, loss arising from trade and other receivables is insignificant i.e. less than 0.5% of the total balance of trade and other receivables.

Cash and fixed deposits are placed with banks and financial institutions which are regulated. Transactions involving derivative financial instruments are allowed only with counterparties who have sound credit ratings. Financial guarantees are provided only if the credit risks exposure to the Group is minimized to zero or to wholly-owned subsidiaries.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date of the Group is as follows:

| | 2007 | 2006 |
|-------------------|---------|---------|
| | RMB'000 | RMB'000 |
| Trade receivables | 24,436 | 38,314 |

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region of the Group is set out as follows:

| | 2007 | 2006 |
|----------------------------|---------------|---------------|
| | RMB'000 | RMB'000 |
| Canada | – | 24,392 |
| United States of America | – | 6,308 |
| People's Republic of China | 24,436 | 7,614 |
| | <u>24,436</u> | <u>38,314</u> |

Impairment losses

The ageing of trade receivables of the Group at the reporting date can be analyzed as:

| | Gross | Impairment | Gross | Impairment |
|-----------------------------|---------------|------------|---------------|------------|
| | 2007 | 2007 | 2006 | 2006 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Not past due | 24,325 | – | 38,060 | – |
| Past due 0 - 120 days | 7 | – | 49 | – |
| Past due more than 120 days | 104 | 104 | 205 | 205 |
| | <u>24,436</u> | <u>104</u> | <u>38,314</u> | <u>205</u> |

Amount not paid after the credit term will be considered past due. The credit term granted to customers are based on their creditworthiness and the Group's policy.

The change in impairment loss of the Group in respect of trade receivables during the year is as follows:

| | 2007 | 2006 |
|--------------------------|------------|------------|
| | RMB'000 | RMB'000 |
| At 1 January | 205 | 480 |
| Impairment loss reversed | (101) | (275) |
| At 31 December | <u>104</u> | <u>205</u> |

Based on historic default rates, the Group believes that no allowance for impairment loss is necessary in respect of trade receivables not past due or past due less than 120 days. More than 95% of the balance relates to customers that have a good payment track record with the Group.

The allowance account in respect of trade receivable is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the financial asset is considered irrecoverable and the amount charged to the allowance account is written off against the carrying amount of the impaired financial assets.

Notes To The Financial Statements (Cont'd)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 15 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains approximately RMB68.2 million of undrawn credit with banks that can be drawn down to meet short term financing needs as at 31 December 2007.

Exposure to liquidity risk

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates for fixed rate instruments) and the earliest date the Group and the Company can be required to pay:

| | Carrying amount RMB'000 | Total undiscounted cash flows RMB'000 | Within 1 year or on demand RMB'000 | Within 1 to 5 years RMB'000 |
|--|-------------------------------|--|---|-----------------------------------|
| Group | | | | |
| As at 31 December 2007 | | | | |
| Non-derivative financial liabilities | | | | |
| Floating interest rate loans | 449,272 | 452,431 | 368,253 | 84,178 |
| Fixed interest rate loans | 681,000 | 767,808 | 94,169 | 673,639 |
| Trade payables and accruals | 231,386 | 231,386 | 231,386 | - |
| Other payables | 155,761 | 155,761 | 155,761 | - |
| Amounts due to associate | 1,916 | 1,916 | 1,916 | - |
| Derivative financial liabilities | | | | |
| Cross currency interest rate swaps used for hedging | | | | |
| - net outflow | 38,578 | 41,409 | 10,615 | 30,794 |
| | <u>1,557,913</u> | <u>1,650,711</u> | <u>862,100</u> | <u>788,611</u> |

| | Carrying amount RMB'000 | Total undiscounted cash flows RMB'000 | Within 1 year or on demand RMB'000 | Within 1 to 5 years RMB'000 |
|--|-------------------------------|--|---|-----------------------------------|
| Group | | | | |
| As at 31 December 2006 | | | | |
| Non-derivative financial liabilities | | | | |
| Floating interest rate loans | 420,519 | 474,896 | 135,750 | 339,146 |
| Fixed interest rate loans | 496,000 | 586,087 | - | 586,087 |
| Trade payables and accruals | 119,686 | 119,686 | 119,686 | - |
| Other payables | 185,649 | 185,649 | 185,649 | - |
| Derivative financial liabilities | | | | |
| Cross currency interest rate swaps used for hedging | | | | |
| - net outflow | 17,472 | 18,682 | 1,542 | 17,140 |
| | <u>1,239,326</u> | <u>1,385,000</u> | <u>442,627</u> | <u>942,373</u> |
| Company | | | | |
| As at 31 December 2007 | | | | |
| Non-derivative financial liabilities | | | | |
| Floating interest rate loans | 234,241 | 237,400 | 147,814 | 89,586 |
| Trade payables and accruals | 15,399 | 15,399 | 15,399 | - |
| Other payables | 257 | 257 | 257 | - |
| Derivative financial liabilities | | | | |
| Cross currency interest rate swaps used for hedging | | | | |
| - net outflow | 38,578 | 41,409 | 10,615 | 30,794 |
| | <u>288,475</u> | <u>294,465</u> | <u>174,085</u> | <u>120,380</u> |
| As at 31 December 2006 | | | | |
| Non-derivative financial liabilities | | | | |
| Floating interest rate loans | 420,519 | 474,896 | 135,750 | 339,146 |
| Trade payables and accruals | 19,082 | 19,082 | 19,082 | - |
| Other payables | 224 | 224 | 224 | - |
| Derivative financial liabilities | | | | |
| Cross currency interest rate swaps used for hedging | | | | |
| - net outflow | 17,472 | 18,682 | 1,542 | 17,140 |
| | <u>457,297</u> | <u>512,884</u> | <u>156,598</u> | <u>356,286</u> |

Notes To The Financial Statements (Cont'd)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines established by the Group. Generally, the Group seeks to enter into such transactions in order to manage volatility in profit or loss.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in currencies other than RMB. The currency in which these transactions are primarily denominated is the US dollar.

The Group entered into non-deliverable cross currency interest rate swaps to hedge 50% of the principal amounts of the Group's certain US dollars bank loan. The non-deliverable cross currency interest rate swaps mature on the same date as the repayment date of the loan.

Interest on most borrowings is denominated in currency that matches the cash flows generated by the underlying operations of the Group, primarily RMB.

In respect of other monetary assets and liabilities denominated in currencies other than RMB, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates, when necessary, to address short-term imbalances.

Exposure to currency risk

The Group's and the Company's exposure to foreign currency risk was as follows based on notional amounts:

| | 31 December 2007 | | | | |
|---|------------------|-----------------|----------------|----------------|------------------|
| | SGD RMB'000 | Euro RMB'000 | USD RMB'000 | RMB RMB'000 | Total RMB'000 |
| Group | | | | | |
| Trade and bill receivables | - | - | - | 136,906 | 136,906 |
| Deposits, prepayments and other receivables | 203 | 9,014 | 8,923 | 76,515 | 94,655 |
| Cash and cash equivalents | 45,145 | - | 14,107 | 72,599 | 131,851 |
| Trade payables and accruals | (14,575) | - | (8,375) | (208,436) | (231,386) |
| Other payables | (257) | (106) | (14,627) | (140,771) | (155,761) |
| Interest-bearing liabilities | - | - | (382,272) | (748,000) | (1,130,272) |
| Financial derivatives | - | - | (38,578) | - | (38,578) |
| | 30,516 | 8,908 | (420,822) | (811,187) | (1,192,585) |

| | 31 December 2006 | | | | |
|---|------------------|-----------------|----------------|----------------|------------------|
| | SGD RMB'000 | Euro RMB'000 | USD RMB'000 | RMB RMB'000 | Total RMB'000 |
| Trade and bill receivables | - | - | 30,700 | 52,687 | 83,387 |
| Deposits, prepayments and other receivables | 757 | 451 | 9,431 | 92,341 | 102,980 |
| Cash and cash equivalents | 14,483 | 102 | 2,683 | 48,580 | 65,848 |
| Trade payables and accruals | (17,507) | - | (1,728) | (100,451) | (119,686) |
| Other payables | (224) | - | (949) | (184,476) | (185,649) |
| Interest-bearing liabilities | - | - | (420,519) | (496,000) | (916,519) |
| Financial derivatives | - | - | (17,472) | - | (17,472) |
| | (2,491) | 553 | (397,854) | (587,319) | (987,111) |

Notes To The Financial Statements (Cont'd)

| | 31 December 2007 | | | | |
|--|------------------|-----------------|----------------|----------------|------------------|
| | SGD RMB'000 | Euro RMB'000 | USD RMB'000 | RMB RMB'000 | Total RMB'000 |
| Company | | | | | |
| Amounts due from subsidiaries - loans | - | - | 91,308 | - | 91,308 |
| Deposits, prepayments and other receivables | 203 | - | - | - | 203 |
| Amounts due from related parties | - | - | 146,942 | - | 146,942 |
| Cash and cash equivalents | 45,145 | - | 1,709 | - | 46,854 |
| Trade payables and accruals | (14,549) | - | (850) | - | (15,399) |
| Other payables | (257) | - | - | - | (257) |
| Interest-bearing liabilities | - | - | (234,241) | - | (234,241) |
| Financial derivatives | - | - | (38,578) | - | (38,578) |
| | 30,542 | - | (33,710) | - | (3,168) |
| 31 December 2006 | | | | | |
| | SGD RMB'000 | Euro RMB'000 | USD RMB'000 | RMB RMB'000 | Total RMB'000 |
| Amounts due from subsidiaries - loans | - | - | 316,253 | - | 316,253 |
| Deposits, prepayments and other receivables | 757 | - | - | - | 757 |
| Amounts due from related parties | - | - | 125,903 | - | 125,903 |
| Cash and cash equivalents | 14,483 | - | 1,355 | - | 15,838 |
| Trade payables and accruals | (17,507) | - | (1,575) | - | (19,082) |
| Other payables | (224) | - | - | - | (224) |
| Interest-bearing liabilities | - | - | (420,519) | - | (420,519) |
| Financial derivatives | - | - | (17,472) | - | (17,472) |
| | (2,491) | - | 3,945 | - | 1,454 |

Sensitivity analysis

A 10 percent strengthening of the RMB against the following currencies at the reporting date could have increased /(decreased) profit or loss and effects on increase /(decrease) in equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

| | Group | | Company | |
|-------------------------|---|------------------------------|---|------------------------------|
| | Increase/ (Decrease) in equity RMB'000 | Profit/ (Loss) RMB'000 | Increase/ (Decrease) in equity RMB'000 | Profit/ (Loss) RMB'000 |
| 31 December 2007 | | | | |
| US dollar | 257 | 42,082 | - | 3,371 |
| Euro | - | (891) | - | - |
| Singapore dollar | - | (3,052) | - | (3,054) |
| 31 December 2006 | | | | |
| US dollar | - | 39,785 | - | (395) |
| Euro | - | (55) | - | - |
| Singapore dollar | - | 249 | - | 249 |

A 10 percent weakening of the RMB against the above currencies at the year end 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.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's cash and cash equivalents and debt obligations. Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

The Group adopts a policy of managing its interest rate exposure by maintaining a mix of debt portfolio with both fixed and floating rates of interest. Where appropriate, the Group uses interest rate derivatives to hedge its interest rate exposure for specific underlying debt obligations. Interest rate swaps, which are denominated in US dollar, have been entered into to achieve an appropriate mix of fixed and floating rate exposures within the Group's policy. The swaps mature over the next 2 years following the maturity of the related loans.

At 31 December 2007, the Group and the Company has 9 non-deliverable cross currency interest rate swaps with a notional contract amount of RMB215,903,000 (US\$26,250,000) [2006: RMB273,477,000 (US\$33,250,000)] whereby it pays fixed interest rates ranging from 0.63% to 2.25% and receives variable rates equal to the SIBOR on the notional amount.

The notional amount of financial instruments relating to non-deliverable cross currency interest rate swap have not been recognized in the balance sheet of the Group and the Company as at 31 December 2007. The negative fair value of these derivatives recognized for the Group and the Company as at 31 December 2007 is RMB38,578,000 (US\$5,281,000) [2006: RMB17,472,000 (US\$2,237,445)].

Notes To The Financial Statements (Cont'd)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis point (bp) in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. The analysis assumed that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

| | Group | | Company | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Income statement | | Income statement | |
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 31 December 2007 | | | | |
| Variable rate instruments | (4,524) | 4,524 | - | - |
| Cross currency interest rate swaps | 1,977 | (1,977) | 1,977 | (1,977) |
| | (2,547) | 2,547 | 1,977 | (1,977) |
| 31 December 2006 | | | | |
| Variable rate instruments | (4,256) | 4,256 | - | - |
| Cross currency interest rate swaps | 4,406 | (4,406) | 4,406 | (4,406) |
| | 150 | (150) | 4,406 | (4,406) |

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Derivatives

The estimated fair values of derivative financial instruments are based on quotes obtained from reputable financial institution. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of the contract and using market interest rates for a similar instrument at the measurement date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The carrying amounts of bank loans approximate their fair values based on the borrowing rates currently available for bank loans with similar terms and maturity.

Other financial assets and liabilities

The notional amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) approximate their fair values. All other financial assets and liabilities are discounted to determine their fair values.

Interest rates used in determining fair values

The Group uses the market rate of similar financial instruments as of 31 December 2007 to discount financial instruments. The interest rates used are as follows:

| | 2007 % | 2006 % |
|----------------------|-------------|-------------|
| Staff loans | 4.23 | 4.23 |
| Loans and borrowings | 5.67 – 7.35 | 5.58 – 7.13 |

The aggregate net fair values of recognized financial assets and liabilities which are not carried at fair value in the balance sheet at 31 December are represented in the following table:

| | Carrying amount 2007 RMB'000 | Fair value 2007 RMB'000 | Carrying amount 2006 RMB'000 | Fair value 2006 RMB'000 |
|--------------------------------|---------------------------------------|----------------------------------|---------------------------------------|----------------------------------|
| Group | | | | |
| Financial assets | | | | |
| Staff loans | 3,576 | 3,398 | 2,795 | 2,677 |
| Financial liabilities | | | | |
| Fixed interest rate bank loans | (681,000) | (713,783) | (496,000) | (586,087) |
| Total | (677,424) | (710,385) | (493,205) | (583,410) |
| Unrecognized gain | | (32,961) | | (90,205) |

Notes To The Financial Statements (Cont'd)

33 Segmental information

Business segments

The Group comprises predominantly one business segment which is the manufacture and sale of chemical products.

Geographical segments

| | People's Republic of China RMB'000 | United States of America RMB'000 | Canada RMB'000 | Others RMB'000 | Total RMB'000 |
|---------------------------------|---|---|-------------------|-------------------|------------------|
| 2007 | | | | | |
| Revenue from external customers | 1,300,079 | 23,567 | 128,667 | 183,570 | 1,635,883 |
| Segment assets | 2,664,425 | - | - | 54,420 | 2,718,845 |
| Capital expenditure | 452,752 | - | - | 279 | 453,031 |
| 2006 | | | | | |
| Revenue from external customers | 1,321,497 | 15,509 | 24,390 | 139,701 | 1,501,097 |
| Segment assets | 2,149,350 | - | - | 16,648 | 2,165,998 |
| Capital expenditure | 529,999 | - | - | 143 | 530,142 |

34 Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the consolidated financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Impairment of property, plant and equipment

The Group reviews the carrying amounts of the assets as at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount or value in use is estimated. Determining the value in use of property, plant and equipment and other long-lived assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, require the Group to make estimates and assumptions that can materially affect the financial statements. Any resulting impairment loss could have a material adverse impact on the Group's financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgement and estimations. While the Group believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charge.

Impairment of trade receivables

Trade receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful receivables is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivables.

Management uses judgement to determine the allowance for doubtful receivables which are supported by historical write-off, credit history of the customers and repayment records. The Group reviews its allowance for doubtful receivables monthly. Balances which are past due for more than 120 days are reviewed individually for collectibility. Accounts balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

Notes To The Financial Statements (Cont'd)

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly based on the factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information in order to determine the amount of depreciation expense to be recorded during any reporting period. Changes in the expected level of use of the assets and the Group's historical experience with similar assets after taking into account anticipated technological changes could impact the economic useful lives and the residual values of the assets, therefore future depreciation charges could be revised. Any changes in the economic useful lives could impact the depreciation charges and consequently affect the Group's results.

Construction in progress

The Group has one long-term expansion project underway which is expected to be completed by 2008. The billings by the contractors are sent to the Group based on their estimation of the stage of completion of the expansion project.

Management uses judgement to estimate the extent of progress towards completion to determine the amount of construction in progress to be capitalized and the accruals of construction costs. The amount of construction in progress to be capitalized, advances to contractors/suppliers and the accruals of construction costs as at to-date and the amounts which the Group will ultimately incur could differ from the estimates.

Income and other taxes

The Group is subject to income and other taxes in a few jurisdictions. Significant judgement is required in determining the capital allowances, the types and rates of taxes payable, and taxability of certain income during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit 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 recorded, such difference will impact the revenue, provisions for income tax and deferred income tax in the period in which such determination is made.

See note 18 on the unrecognized deferred tax assets for temporary differences in relation to income tax rebates.

35 Subsequent events

Bonus share issue

The Company proposed a bonus share issue (the "Bonus Issue") of 182,842,647 new ordinary shares in the capital of the Company (the "Bonus Shares") on the basis of one Bonus Share for every 2 existing ordinary shares held by the shareholders of the Company on a date to be determined by the Directors. The Bonus Shares amounting to RMB1.83 million will be issued and applied out of the Company's accumulated profits. The actual number of Bonus Shares that will be issued by the Company will depend on the total issued share capital of the Company as at Books Closure Date.

The Bonus Shares, when issued, will rank pari passu in all respects with the existing ordinary shares of the Company except that they will not be entitled to any dividend declared in respect of the final dividend proposed for the current financial year.

The Bonus Issue and the listing and quotation of the Bonus Shares on the Mainboard of the Singapore Exchange Securities Trading Limited ("SGX-ST") are subject to the approval of the SGX-ST.

Notes To The Financial Statements (Cont'd)

36 New accounting standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

- FRS 108 **Operating Segments** introduces the "management approach" to segment reporting. FRS 108, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. It is not expected to have any impact on the consolidated financial statements.
- Revised FRS 23 **Borrowing Costs** removes the option to expense borrowing costs and requires that an entity capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised FRS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions, the Group will apply the revised FRS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date.
- INT-FRS 111 FRS 102 **Group and Treasury Share Transactions** requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. INT-FRS 111 FRS 102 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.
- INT-FRS 112 **Service Concession Arrangements** provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. INT-FRS 112, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

37 Comparative Information

The following comparative figures have been reclassified to be consistent and comparable with the current year's presentation:

| | Previously reported | Reclassification | Restated |
|--------------------------|------------------------|------------------|----------|
| | RMB'000 | RMB'000 | RMB'000 |
| Income statement | | | |
| Other operating income | 46,491 | (27,056) | 19,435 |
| Other operating expenses | (24,509) | 181 | (24,328) |
| Finance costs | (54,564) | 54,564 | - |
| Finance income | - | 27,735 | 27,735 |
| Finance expenses | - | (55,424) | (55,424) |

Leasehold Prepayments and Buildings

Details of leasehold prepayments and buildings as at 31 December 2007 are as follows:

| Location | Description | Approximate land area (square metre) | Tenure |
|--|--|---|---------------------------------|
| 1 Shugang Road, Taixing Economic Development Zone Jiangsu Province People's Republic of China ("PRC") PRC 225404 | Land | 278,893 | 50 years up to 22/1/2047 |
| 1 Shugang Road, Taixing Economic Development Zone Jiangsu Province, PRC PRC 225404 | Covered production areas, office and other buildings | 16,938 | 50 years up to 22/1/2047 |
| Jiangbu Road, Guochuan Town, Taixing Economic Development Zone Jiangsu Province, PRC PRC 225404 | Land | 270,000 | 50 years up to 6/9/2055 |
| Jiangbu Road, Guochuan Town, Taixing Economic Development Zone Jiangsu Province, PRC PRC 225404 | Land | 187,719 | 50 years up to 30/12/2055 |
| No. 368, Long Pan Zhong Road, Block 1, Unit 1, Room 1502, Nanjing Jiangsu Province, PRC | Apartment | 139 | 65 years up to 4/6/2071 |
| No. 368, Long Pan Zhong Road, Block 1, Unit 3, Room 706, Nanjing Jiangsu Province, PRC | Apartment | 124 | 65 years up to 4/6/2071 |

Information On Shareholdings

As at 25 February 2008

| | |
|-----------------------------------|---|
| Issued and fully paid-up capital: | S\$78,934,685 (RMB411,200,278) |
| Class of shares: | Ordinary |
| Voting rights: | On a show of hands: 1 vote for each member On a poll: 1 vote for each ordinary share |

ANALYSIS OF SHAREHOLDINGS AS AT 25 FEBRUARY 2008

| Range of Shareholdings | Number of Shareholders | Percentage | No of Shares | Percentage |
|------------------------|------------------------|---------------|--------------------|---------------|
| 1 - 999 | 107 | 5.65 | 47,697 | 0.01 |
| 1,000 - 10,000 | 947 | 50.03 | 5,437,317 | 1.49 |
| 10,001 - 1,000,000 | 816 | 43.11 | 47,654,479 | 13.03 |
| 1,000,001 and above | 23 | 1.21 | 312,545,801 | 85.47 |
| TOTAL | 1,893 | 100.00 | 365,685,294 | 100.00 |

Based on information available to the Company as at 25 February 2008, approximately 31.4% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited is complied with.

MAJOR SHAREHOLDERS AS AT 25 FEBRUARY 2008

| No | Name of Shareholder | Number of Shares Held | Percentage |
|----|---------------------------------------|-----------------------|--------------|
| 1 | Asiawide Holdings Pte Ltd | 180,763,180 | 49.43 |
| 2 | Grand Asia Holdings Pte Ltd | 31,402,236 | 8.59 |
| 3 | Concord Asia Holdings Limited | 21,184,824 | 5.79 |
| 4 | HSBC (Singapore) Nominees Pte Ltd | 8,985,500 | 2.46 |
| 5 | Citibank Nominees Singapore Pte Ltd | 8,140,727 | 2.23 |
| 6 | DBS Nominees Pte Ltd | 7,304,434 | 2.00 |
| 7 | Oversea Chinese Bank Nominees Pte Ltd | 7,200,000 | 1.97 |
| 8 | Raffles Nominees Pte Ltd | 5,373,000 | 1.47 |
| 9 | DBSN Services Pte Ltd | 5,293,000 | 1.45 |
| 10 | Lim Choon Kong | 5,080,000 | 1.39 |
| 11 | Tjen Su San | 5,040,000 | 1.38 |
| 12 | Lim Hui Wen | 4,560,000 | 1.25 |
| 13 | Lucas Sasmito | 4,093,000 | 1.12 |
| 14 | Lim Jin Huei (Lin Jinhui) | 3,600,000 | 0.98 |
| 15 | Lim Yan Kwong | 2,080,000 | 0.57 |
| 16 | Chia Kee Koon | 1,998,800 | 0.55 |
| 17 | Tan Guan Huat David | 1,850,000 | 0.50 |
| 18 | Foo Hwa Ben | 1,810,000 | 0.49 |
| 19 | Bank of China Nominees Pte Ltd | 1,657,000 | 0.45 |
| 20 | DBS Vickers Securities (S) Pte Ltd | 1,541,000 | 0.42 |
| | | 308,956,701 | 84.49 |

Shareholdings Statistics

As at 25 February 2008

SUBSTANTIAL SHAREHOLDERS

| Name of substantial shareholder | Number of shares directly held by the substantial shareholder | Number of shares in which substantial shareholder is deemed to have an interest | Total | Percentage (%) |
|-----------------------------------|---|---|-------------|----------------|
| Asiawide Holdings Pte Ltd | 187,963,180 | - | 187,963,180 | 51.40% |
| Lucas Sasmito | 4,093,000 | 187,963,180 ⁽¹⁾ | 192,056,180 | 52.52% |
| Hendrik Sasmito | - | 187,963,180 ⁽¹⁾ | 187,963,180 | 51.40% |
| Barrington Heights Limited | - | 187,963,180 ⁽¹⁾ | 187,963,180 | 51.40% |
| Independent Alliance Ventures Ltd | - | 187,963,180 ⁽¹⁾ | 187,963,180 | 51.40% |
| Chan Hian Siang | 120,000 | 37,552,236 ⁽²⁾ | 37,672,236 | 10.30% |
| Grand Asia Holdings Pte Ltd | 37,402,236 | - | 37,402,236 | 10.23% |
| Concord Asia Holdings Limited | 21,184,824 | - | 21,184,824 | 5.79% |

Notes:

- (1) Mr Hendrik Sasmito, Barrington Heights Limited ("BHL") and Independent Alliance Ventures Ltd ("IAVL")'s deemed interests arise from 187,963,180 shares held by Asiawide Holdings Pte Ltd ("AWH") where they are the shareholders of AWH with 40%, 30% and 30% interest respectively. Each of Hendrik Sasmito, BHL and IAVL is therefore deemed to be indirectly interested in the 187,963,180 shares held by AWH. BHL and IAVL are companies incorporated in the British Virgin Islands ("BVI") and all the shares in BHL and IAVL are held under a discretionary trust. The trustee of the discretionary trust is Cumulus Enterprises Ltd, a company incorporated in Jersey, the Channel Islands. Mr Hendrik Sasmito, his wife and their children, and Mr Lucas Sasmito and his wife belong to a class of potential beneficiaries of the discretionary trust and each of them is and will be deemed to be interested in the 187,963,180 shares held by AWH.
- (2) Mr Chan Hian Siang's deemed interest arises from 37,402,236 shares held by Grand Asia Holdings Pte Ltd ("GAHPL") where he is the majority shareholder of GAHPL and 150,000 shares held by his spouse, Mdm Lau Yuen Fong.

Notice of Seventeenth Annual General Meeting

NOTICE IS HEREBY GIVEN that the Seventeenth Annual General Meeting of the Company will be held at Carlton Hotel, Empress Room One, Level Two, Bras Basah Road, Singapore 189558, on Thursday, 3 April 2008 at 2:30 p.m. to transact the following business :-

Ordinary Business

- 1 To receive and consider the Directors' Report and Audited Accounts, for the financial year ended 31 December 2007 and the Auditors' Report thereon. **[Resolution 1]**

- 2 To declare a one-tier tax exempt first and final dividend of 7.2 RMB cents per ordinary share, for the year ended 31 December 2007. **[Resolution 2]**

Note: The above dividend, if approved by members at the Seventeenth Annual General Meeting, will be paid to the members in Singapore dollars based on the exchange rate prevailing on the date of payment.

- 3 To approve the payment of Directors' fees of S\$332,000, for the financial year ending 31 December 2008, to be paid quarterly in arrears. (2007 : S\$332,000) **[Resolution 3]**

- 4 (a) To re-elect Mr Lee Choon Hui Francis, who is retiring in accordance with Article 91 of the Company's Articles of Association, as Director. **[Resolution 4(a)]**

Note : Mr Lee Choon Hui Francis, if re-elected, will remain as the Non-executive Chairman of the Company, and will be considered as an independent director.

- (b) To re-elect Mr Quek Cher Teck, who is retiring in accordance with Article 91 of the Company's Articles of Association, as Director. **[Resolution 4(b)]**

Note : Mr Quek Cher Teck, if re-elected, will remain as the Chairman of the Company's remuneration committee, and a member of the Company's audit committee, and will be considered as an independent director.

- (c) To re-elect Mr Wira Tjendana, who is retiring in accordance with Article 91 of the Company's Articles of Association, as Director. **[Resolution 4(c)]**

Note : Mr Wira Tjendana, if re-elected, will remain as the Company's executive director, and will not be considered as an independent director.

- 5 To re-appoint KPMG as Auditors and to authorize the Directors to fix their remuneration. **[Resolution 5]**

Special Business

6 To consider and, if thought fit, to pass the following as Ordinary Resolutions, with or without modifications:-

(a) That pursuant to Section 161 of the Companies Act, Cap. 50 of Singapore (the "Companies Act") and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, authority be and is hereby given to the Directors to allot and issue, whether by way of rights, bonus or otherwise, (i) shares; (ii) convertible securities; (iii) additional convertible securities issued pursuant to rights, bonus or other capitalization issues (notwithstanding that such authority may have ceased to be in force at the time the securities are issued, provided that the adjustment does not give the holder of the convertible securities a benefit that a shareholder does not receive); or (iv) shares arising from the conversion of securities in (ii) and additional convertible securities in (iii), notwithstanding that such authority may have ceased to be in force at the time the shares are to be issued; in the Company, upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit PROVIDED THAT

(i) the aggregate number of shares and convertible securities to be issued, pursuant to this resolution, shall not exceed 50% of the issued share capital of the Company; and

(ii) the aggregate number of shares and convertible securities issued, other than on a pro rata basis, to existing shareholders, shall not exceed 20% of the issued share capital of the Company,

and for the purpose of this resolution, the percentage of the issued share capital shall be based on the Company's issued share capital, at the time this resolution is passed, after adjusting for new shares arising from the conversion or exercise of convertible securities, or share options, or vesting of shares awards, which are outstanding or subsisting at the time this resolution is passed and any subsequent consolidation or subdivision of the Company's shares, and, unless revoked or varied by the Company in general meeting, such authority shall continue in force 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 the earlier.

[See Explanatory Note (i)]

[Resolution 6(a)]

(b) That approval be and is hereby given to the Directors to offer and grant options, in accordance with the rules of the SP Employee Share Option Scheme (the "Scheme") and, pursuant to Section 161 of the Companies Act, to allot and issue, from time to time, such number of shares as may be required to be issued, pursuant to the exercise of the options under the Scheme, Provided Always That the aggregate number of shares to be issued pursuant to the Scheme shall not exceed 15% of the total issued share capital of the Company, from time to time.

[See Explanatory Note (ii)]

[Resolution 6(b)]

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

[Resolution 7]

Notice of Seventeenth Annual General Meeting (Cont'd)

By Order of the Board

Lee Wei Lin
Company Secretary

Singapore

17 March 2008

NOTICE OF CLOSURE OF TRANSFER BOOKS AND REGISTER OF MEMBERS

NOTICE IS HEREBY GIVEN that the Transfer Books and Register of Members of the Company will be closed from 5:00p.m. on 17 April 2008 up to and including 18 April 2008 for the preparation of dividend warrants.

Duly completed registrable transfers received by the Company's Registrar, M & C Services Private Limited, 138 Robinson Road #17-00, The Corporate Office, Singapore 068906 up to 5:00 p.m. on 17 April 2008 will be registered to determine scripholders' entitlements to the proposed dividend.

Members, being depositors, whose securities accounts with The Central Depository (Pte) Limited are credited with shares at 5:00 p.m. on 17 April 2008 will be entitled to the proposed dividend. **Bonus shares allotted and issued under the recent bonus issue first announced on 1 February 2008 will not be entitled to this proposed dividend.**

Payment of the proposed dividend, if approved by members at the Seventeenth Annual General Meeting, will be made on 29 April 2008.

Explanatory Notes :

- (i) Resolution 6(a) is to authorize the Directors to allot and issue an aggregate number of shares and convertible securities, not exceeding 50% of the Company's issued share capital. For any allotments and issues of shares and convertible securities not made on a pro rata basis to shareholders of the Company, the aggregate number of shares and convertible securities to be allotted and issued, shall not exceed 20% of the Company's issued share capital.
- (ii) Resolution 6(b) is to authorize the Directors to offer and grant options, and to allot and issue shares in the capital of the Company, pursuant to the SP Employee Share Option Scheme (the "Scheme"), provided that the aggregate number of shares to be issued under the Scheme, shall not exceed 15% of the issued share capital of the Company from time to time.

Proxies :

A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him and that a proxy need not be a member of the Company. The instrument appointing a proxy must be deposited at the registered office of the Company at 15 Beach Road #05-11 Beach Centre Singapore 189677 not less than forty-eight (48) hours before the time appointed for the holding of the Annual General Meeting.

Proxy Form

SP CHEMICALS LTD.

(Incorporated in the Republic of Singapore under the Companies Act, Cap. 50)

Company Registration No. 199005499R

Important:

1. For investors who have used their CPF monies to buy the Company's shares, the Annual Report is forwarded to them at the request of their 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 Annual General Meeting as OBSERVERS have to submit their requests through their respective Agent banks so that their Agent banks may register with the Company Secretary of the Company not less than forty-eight (48) hours before the time appointed for holding the meeting.

Annual General Meeting

I/We _____

of _____

being a member/members of SP CHEMICALS LTD. hereby appoint:

| Name | Address | NRIC/Passport Number | Proportion of Shareholdings (%) |
|---------------------------------------|---------|----------------------|---------------------------------|
| | | | |
| <i>and/or (delete as appropriate)</i> | | | |
| | | | |

as my/our proxy/proxies to vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Annual General Meeting of SP CHEMICALS LTD. to be held at Carlton Hotel, Empress Room One, Level Two, Bras Basah Road, Singapore 189558, on Thursday, 3 April 2008 at 2:30 p.m. and at any adjournment thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the Resolutions as set out in the Notice of Annual General Meeting. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the Annual General Meeting.)

| NO | RESOLUTIONS | FOR | AGAINST |
|----|---|-----|---------|
| 1. | Adoption of Accounts and Reports | | |
| 2. | Declaration of one-tier tax exempt first and final dividend | | |
| 3. | Approval of Directors' fees for the financial year ending 31 December 2008 to be paid quarterly in arrears | | |
| 4. | Re-election of Directors : (a) Mr Lee Choon Hui Francis (b) Mr Quek Cher Teck (c) Mr Wira Tjendana | | |
| 5. | Re-appointment of Auditors | | |
| 6. | (a) Authority for Directors to allot and issue shares and convertible securities pursuant to Section 161 of the Companies Act, Cap. 50 (b) Authority for Directors to offer and grant options and allot shares pursuant to the SP Employee Share Option Scheme | | |
| 7. | Any other ordinary business | | |

Dated this _____ day of _____ 2008.

Total Number of Shares Held:

Signature(s) of member(s) or Common Seal

**IMPORTANT:
PLEASE READ NOTES OVERLEAF**

| |
|--|
| |
|--|



Proxy Form (Cont'd)

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, Cap. 50), 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 of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies, whether a member or not, to attend and vote instead of him.
3. Where a member appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.
4. The instrument appointing a proxy must be deposited at the registered office of the Company at 15 Beach Road #05-11 Beach Centre Singapore 189677, not less than forty-eight (48) hours before the time appointed for the holding of the Annual General Meeting.
5. The instrument appointing a proxy shall be signed by the appointor or his attorney. Where the instrument appointing a proxy is given by a corporation, it must be either given under its common seal or signed on its behalf by an attorney or a duly authorized officer of the corporation.
6. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation which is a member may by a resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Cap. 50.

General:

The Company shall be entitled to reject an instrument of proxy 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 of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at forty-eight (48) hours before the time appointed for the holding of the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.



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