SINO DRAGON NEW ENERGY HOLDINGS LIMITED
中國龍新能源控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(HKEX - Stock Code: 0395)

2011
Annual Report

* For identification purposes only

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Yang Xin Min *(Chairman)*
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Li Fu Ping
Mr. Fang Guo Hong

NON-EXECUTIVE DIRECTOR

Mr. Wang Jia Wei *(Vice Chairman)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheng Faat Ting Gary, CPA, HKICPA
Prof. Ji Chang Ming
Mr. Poon Lai Yin Michael

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Li Mei Kuen, CPA (Aust.), HKICPA

AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
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Central
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
China Construction Bank
The Hongkong & Shanghai Banking Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACES OF BUSINESS

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Yixing City
Jiangsu Province
PRC

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Conyers Dill & Pearman, Cayman

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HONG KONG BRANCH SHARE REGISTRAR

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183 Queen's Road East
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Hong Kong

CANADIAN BRANCH SHARE REGISTRAR

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STOCK NAME

Sino Dragon

STOCK CODE

Hong Kong Stock Exchange: 395

Financial Summary

	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**223,855**	153,234	126,108	478,775	541,510
Gross profit margin *(%)*	**17%**	8%	-16%	23%	23%
(Loss)/Profit attributable					
to shareholders	**(234,097)**	(144,739)	(296,430)	31,287	61,464
EBIT	**(231,064)**	(151,033)	(395,655)	45,146	81,206
EBITDA	**(208,230)**	(142,150)	(374,551)	64,660	98,485
Dividends - ordinary shares	**n/a**	n/a	n/a	3,788	13,377
(Loss)/Earnings per share* (restated)					
— basic *(RMB)*	**(0.0975)**	(0.0821)	(0.238)	0.022	0.048
(Loss)/Earnings per share* (restated)					
— diluted *(RMB)*	**(0.1078)**	(0.0821)	(0.238)	0.022	0.048
Debt-equity ratio	**123.3%**	net cash	net cash	net cash	net cash
		position	position	position	position
Dividends payout ratio *(%)*	**n/a**	n/a	n/a	12%	22%
Ordinary shares* *(shares)*	**2,583,412,645**	2,070,139,880	1,621,939,880	1,432,339,880	1,419,341,880
Bank and cash balances					
(including pledged deposits)	**334,996**	276,802	230,136	278,403	253,152
Cash per share* (restated) *(RMB)*	**0.13**	0.13	0.14	0.20	0.18
Total assets	**1,343,494**	610,823	586,002	879,834	861,101
Net asset value	**570,527**	527,181	514,696	788,483	766,764
Net asset value per share*					
(restated) *(RMB)*	**0.22**	0.25	0.32	0.55	0.54
Inventory turnover days	**69 days**	78 days	96 days	56 days	52 days
Debtors turnover days	**40 days**	58 days	85 days	43 days	44 days
Creditors turnover days	**19 days**	24 days	30 days	11 days	12 days

* The figures for 2007 to 2008 presented in the table above have been restated to take into account the 1 to 20 share subdivision ("Share Subdivision") which took effect from 9 November 2009.

Corporate Profile

Sino Dragon New Energy Holdings Limited (the "Company" or together with its subsidiaries the "Group"), was listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2002. The Company, formerly known as China Zirconium Limited, changed to its current name on 12 October 2009 in order to signify the diversification of the Company's business into new energy-related business. The Group was one of the largest zirconium chemicals manufacturers and exporter in the PRC. Leveraging on its advantages in zirconium chemicals industry, the Group has extended its business into the production and sale of zirconium-related new energy materials (used as electrode materials for batteries) and rechargeable batteries.

The Group started its operations in 1977 and is based in Yixing, Jiangsu Province, the PRC. With over thirty years' development, the Group has successfully transformed from a small-scale zirconium chemicals plant to an internationally renowned zirconium chemicals manufacturer with a sizable annual production capacity of over 40,000 tonnes of various types of zirconium chemicals and 1,500 tonnes of new energy materials. In 2004, the Group established a new wholly-owned subsidiary in Yixing which specialised in the manufacture and sale of rechargeable batteries. It has developed and possessed intellectual property rights in the new type high temperature battery and power battery with zirconium additives. In 2007, the Group established a new wholly-owned subsidiary in Binhai, Jiangsu Province, the PRC, which operated a newly established zirconium production plant. Moreover, the Group expanded further into zircon processing and refining business through the establishment of a joint venture in Indonesia.

Application of zirconium chemicals increased widely from originally two major usages in conventional sanitary ceramics and nuclear power applications to broad areas in mobile phone components, electronic products, optical fibres, textiles, paints, ceramics, optical glass, medical and pharmaceutical products, leather goods, paper goods and cosmetic materials, etc.

The Group's new energy materials products, including nickel hydroxide and hydrogen-storage alloy powder, are electrode materials for NiMH and NiCd batteries. Such products are supplied to battery manufacturers. The Group has also developed new type electrode material with intellectual property right.

The Group's products, with "Long Jing" as the registered trademark in the PRC, Japan, US & Hong Kong, has long been well-received by the international market. Products have been exported to Japan, US and Europe for 33 years, 21 years and 22 years, respectively. In 2001, the Group was accredited by the China Nonferrous Metals Association as the largest zirconium chemicals exporter in the PRC.

Along with the expansion of its business, the Group is also committed to improving operational efficiency and assuring high product quality. The Group has been awarded both the ISO14001 Environmental Management System Certification and the ISO9002 Quality Management System Certification. In 2003, the Group was also accredited as a state key high-tech enterprise. In addition, a number of the Group's products were appraised as high-tech products at state and provincial levels, among which the nanometric zirconium oxide and cerium zirconium compound were rated as Grand New Products by the state and were classified as "China Torch Programme" items.

In January 2011, the Company has completed the acquisition of the entire shareholding interest in Muntari Holdings Limited, an investment holding company principally engaged in the storage and wholesale business of petrochemicals through its wholly owned subsidiaries and certain contractual arrangement in the PRC. It operated a petrochemical storage facility in Ningbo City, Zhejiang Province of the PRC, with a total capacity of 100,000 cubic meters. This acquisition marked the first successful step for the expansion of the Company's business into the petrochemicals industry.

In the future, the Group will maintain a balanced development of the zirconium business and the petrochemicals and oil storage and wholesale business. The rechargeable batteries business is also expected to provide a stable income stream and reasonable profit contribution to the Group's results.

Chairman's Statement

On behalf of the Board of Directors (the "Board") of the Company, I herein present the annual results of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2011 to the shareholders of the Company.

The Group's zirconium business had recovered further during the current year yet the extent was smaller than the management forecast. The new plant in Binhai had commenced production in the first quarter of 2011. As initially planned, Yixing plant had ceased production of zirconium oxychloride, the basic zirconium chemical, when the Binhai plant started production. However, there was an unexpected delay in the approval process of official production license by the government authorities. Consequently, the Binhai plant did not operate in full capacity during the year and the Yixing plant had to rely partially on external suppliers for the supply of zirconium oxychloride as feedstock for the Group's production of medium- and high-end zirconium products. The limited production scale at Binhai plant not only restrained the revenue growth of the Company but also had negative impact on the profit margin. Hence, the management is coordinating closely with the government authorities and making great effort in trying to speed up the approval process.

The rechargeable batteries segment continued to operate at a profit and reported a mild growth in sales. The Company is optimistic in the market for its batteries products (with zirconium) and the batteries segment will continue to contribute positively to the Group's turnover growth and profits.

On 6 January 2011, the Company completed the acquisition of Muntari Holdings Limited and gained controls over its wholly-owned subsidiaries which were mainly engaged in petrochemicals storage and wholesale business. Muntari's subsidiaries currently operate a petrochemicals storage facility with a capacity of 100,000 cubic meters located at Ningbo City, Zhejiang Province, the PRC. The acquisition of this new business successfully broadened the income source and improved the profitability of the Group. The consolidated results of the Group reported a growth in turnover and gross profit by 46% and 2 times respectively. The petrochemicals storage and trading business is expected to generate stable income and contribute profit to the consolidated results.

In November 2011, the Company had announced the completion of the acquisition of Haney Holdings Limited, an investment holding company which was engaged in the storage and wholesale business of oil products in Weihai City, the PRC. However, due to the alleged breach of certain warranties given by the vendor in the share transfer agreement signed with the Company, the Board had resolved to apply for the rescission of the share transfer agreement for such transaction and the application is currently under legal proceedings. Accordingly, the financial statements of Haney Holdings Limited and its subsidiaries had not been consolidated into the Group's financial statements for the year ended 31 December 2011.

Looking ahead, the Company will strive to maintain a balanced growth in the two core segments, zirconium business and the petrochemicals business. The Company will continue to seek for good potential investment opportunities in petrochemicals and oil industry and will strive to achieve higher returns for its shareholders.

Finally, on behalf of the Board, I would like to express sincere gratitude to our shareholders, customers, suppliers and business partners for your long-term support and all staff for your dedication and contribution to the development of the Group.

Yang Xin Min
Chairman

Management Discussion and Analysis

BUSINESS REVIEW

During the year, the PRC economy remained positive despite lower growth rate. This provided a favourable environment for the recovery of the local market for zirconium chemicals. However, the unstable economic climate in the western economies continued to affect the Group's export sales. In order to achieve the target of generating a higher return with the limited resources on hand, the Group continued its strategy in focusing on medium- and high-end zirconium chemicals production. With the Binhai new plant commenced production of zirconium oxychloride in the first quarter of 2011, the Company turned the Yixing plant into a production base of zirconium oxides, zirconium carbonate and other zirconium chemicals with higher profit margin. Although the schedule for expanding the production volume at the Binhai plant had been impeded by the delay in license approval process, the Group was able to achieve a sales growth by 18% in its zirconium chemicals business in current year. At the same time, the Company was also making great efforts in cost management, actively explored internal resources and improved flexibility in the utilisation of internal financial resources in order to overcome the challenges arising from the increasing operating cost (in particular the impact from the accelerating raw materials cost and labour cost), so as to ensure a reasonable profit level for its principal operations.

In the year under review, the rechargeable batteries business reported a sales growth by 13% and continued to generate a net profit. Even though the growth rate of the batteries business was mild, it is expected that the batteries segment will continue to contribute positively to the Group's sales and cashflow in the years to come.

Due to the uncertainty in the Indonesian government policy on mining industry and the unreliable supply of zirconium concentrates (raw materials for the zircon processing plant) in Kalimantan area of Indonesia, the Group had determined to continue suspending the operation of its zircon processing plant in Indonesia during the year. The management of the joint venture is actively seeking opportunities to secure supply of zirconium concentrates through acquiring mining rights in Kalimantan area but the negotiation process is expected to be lengthy and difficult. Once the raw material supply is secured, the Group will consider resuming the operation of the zircon processing plant.

Apart from the consolidation of the existing core business, the Company had successfully expanded its business scope into a new area — the petrochemicals storage and wholesale business. The results and balance sheet of Muntari Holdings Limited and its subsidiaries were consolidated into the Group's consolidated financial statements for the first time during the year. This new business accounted for 19% of the Group's consolidated turnover and making a profit before taxation of approximately RMB36.7 million in 2011.

OUTLOOK

As the global markets are likely to remain uncertain over the persisting debt crisis in Europe, the concern over the US economy and the slow recovery of Japanese economy after the March 2011 earthquake, the Board expected that the global economic environment would remain challenging for the year 2012. The Group will remain prudent and cautious in the implementation of its business plans. The Board would constantly review the Group's strategies and risk management measures in each of the business segments with the view to remain efficient and competitive in the industry. Going forward, the Board would explore new investment opportunities to expand and diversify its petrochemicals and oil businesses, enlarging the Group's asset base and expanding its source of income. We are optimistic in the long-term development of the Group and will better position ourselves to take on the challenges and opportunities arising, with a view of maximizing the returns to the shareholders of the Company.

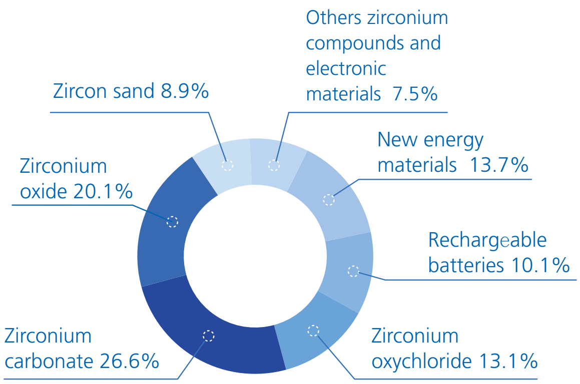
FINANCIAL REVIEW

During the year ended 31 December 2011, the Group's consolidated turnover was RMB223,855,000, represented an increment of RMB70,621,000 or a 46% growth as compared to last year. The increase in turnover was partly contributed by the sales increase in existing zirconium chemicals and rechargeable batteries, and partly by the newly acquired business of petrochemicals storage and trading. Total turnover of the petrochemicals storage and trading for the current year was RMB42,731,000.

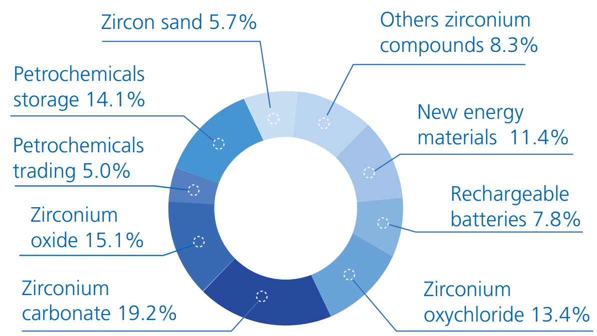
Other revenue had increased from RMB631,000 in last year to RMB6,377,000 in current year, which mainly comprised certain government grants granted by the local government authorities to the subsidiaries of Muntari Holdings Limited. Other net income for the year mainly comprised the recognition of fair value gain in convertible bonds and derivative financial instruments of RMB51,264,000 in accordance with the applicable accounting standards. Consolidated net loss after tax had increased from RMB145,006,000 in last year to RMB234,100,000 in current year. The net loss for the year was mainly resulted from the additional impairment loss of RMB53,777,000 recognised during the year for the non-current assets of the zirconium business, and the impairment loss of the goodwill in relation to the acquisition of Muntari Holdings Limited and its subsidiaries (the "Muntari Group"). The acquisition of Muntari Group had resulted in a significant balance of goodwill mainly because (i) the premium paid over the fair value of the identifiable net assets acquired by the Group in the acquisition. The goodwill mainly arose from the directors' decision to acquire the business for more than the aggregate of the fair value of its identifiable net assets, which was mainly attributable to the superior geographical location of the petrochemicals storage facilities of Muntari Group, its good and stable business relationship with the major petrochemicals suppliers in the PRC, and its experienced management team; and (ii) at completion date (6 January 2011), the Company's share price had increased by 96% from HK$0.45 (the price adopted in the computation of the consideration shares/conversion shares for the acquisition of Muntari Group) to HK$0.88 (closing price of the Company's shares as quoted on the Stock Exchange on 6 January 2011) per share. In accordance with the applicable accounting standards, the fair value of the acquisition consideration was computed using the closing price of the shares at completion date. Therefore, it resulted in a significant increase in the value of the acquisition consideration and the resulting higher goodwill being recognised in the Group's financial statements. As at 31 December 2011, the Company made an impairment assessment on the goodwill and recognized an impairment loss of RMB235,356,000 in the current year's profit or loss.

Turnover analysis by product category

The charts below are a comparison of the proportion of the Group's turnover by product categories for the year ended 31 December 2011 and 31 December 2010:



2010



2011

Note 1: "Other zirconium compounds" included potassium zirconium hexafluoride, zirconium sulphate, zirconium acetate, zirconium silicate and ammonium zirconium hexafluoride, etc.

During the year under review, the Company's total sales of zirconium chemicals was RMB136,994,000 (2010: RMB116,788,000), represented a 17% growth. Sales of zirconium oxides and zirconium carbonate remained as the core, which in aggregate contributed to 34.3% of the consolidated turnover.

Sales of new energy materials and rechargeable batteries both reported a double-digit growth at 22% and 13%, respectively. Sales of new energy materials was RMB25,586,000 (2010: RMB20,918,000), represented 11.4% of consolidated turnover; whereas the sales of rechargeable batteries was RMB17,532,000 (2010: RMB15,528,000) and 7.8% of consolidated turnover.

In current year, the Group had a new income source generated from the petrochemicals storage and trading businesses. Total revenue of petrochemicals storage and petrochemicals trading were RMB31,581,000 and RMB11,150,000, respectively, each represented 14% and 5% of the total turnover.

Gross Profit and Gross Margin

The Group reported a gross profit for the year of RMB38,773,000 (2010: RMB12,862,000), represented a year-to-year growth of over 200% . The significant increase in gross profit mainly came from the new petrochemicals business acquired by the Company during the year and the increase in gross profit for zirconium and batteries businesses, from RMB12,862,000 in 2010 to RMB17,064,000 in 2011. The average gross margin of the Group improved from 8% in prior year to 17% in current year.

Distribution Costs and Administrative Expenses

Notwithstanding the increase in turnover in current year, the distribution cost had decreased from RMB5,644,000 in 2010 to RMB4,786,000 in 2011 because there was no distribution costs incurred for petrochemicals business. Moreover, management continued to implement stringent cost control measures over the zirconium and batteries businesses which had successfully reduced the distribution costs of these businesses while the sales were increasing.

Total administrative expenses had only increased slightly in 2011 by RMB1,919,000, even though the Group had expanded its business operation to a new location at Ningbo City, Zhejiang Province, the PRC, in current year. Similar to last year, the Group had recognised the fair value of the share options granted (including both staff and consultants) during the year as administrative expenses. Total amount recognised in 2010 and 2011 were RMB13,039,000 and RMB9,717,000, respectively. Excluding the amount of the fair value of the share options recognised (as equity-settled share-based payment expenses), the Group's total staff costs for 2011 had increased by RMB2,776,000 or 23% as compared to last year. This was mainly resulted from the additional staff and workers employed in the Binhai new plant and the inclusion of the staff costs for Muntari Group. Moreover, due to the change in the government policies in the PRC, there was significant increase in the wages and staff welfare expenses during the year.

Capital Expenditure

The capital expenditures for the year ended 31 December 2011 and 2010 were approximately RMB50,433,000 and RMB72,425,000, respectively. The current year's capital expenditures mainly comprised (i) the additional cost of the machinery, construction and installation works for the Binhai plant; and (ii) the cost of purchase and installation of certain machines at the Yixing plant for the renovation of the waste water treatment system and the electricity supply network.

Liquidity and Financial Resources

As at 31 December 2011, the Group's bank and cash balances were approximately RMB66,546,000 (2010: RMB276,802,000). With the new plant in Binhai came into operation in current year, additional funds was required for the Group's operating cashflows. In addition, the Group had (i) paid the cash consideration of HK$120,000,000 (equivalent to approximately RMB102,215,000) for the acquisition of a subsidiary during the year; and (ii) made significant payments for construction works and machinery which were completed or installed during the current year. As a result, the bank and cash balances decreased significantly. As at 31 December 2011, the Group also had a pledged bank deposits balance of RMB251,450,000, which was pledged to the bank by the Company's subsidiary engaged in petrochemicals wholesale business as security for its bank credit facilities. Taking into account of all the pledged deposits, deposits maturing beyond three months when placed and the cash and cash equivalents balances, the Group reported a total balance of RMB334,996,000. This indicated that the Group maintained a sound and strong financial position in current year.

As at 31 December 2011, the Group had interest-bearing bank borrowings of RMB20,000,000 (2010: Nil), which were unsecured, repayable within one year and all denominated in Renminbi.

On 6 January 2011, the Company issued two convertible bonds ("CB1" and "CB2"), each of which has a face value of HK$65,000,000 and, subject to the fulfillment of the terms and conditions contained therein, each of CB1 and CB2 can be converted into a maximum of 144,444,444 shares of the Company at a conversion price of HK$0.45 per share. CB1 was converted into 144,444,444 shares on 16 June 2011.

The Group's trade receivables turnover days dropped from 58 days in 2010 to 40 days in 2011. The trade receivables turnover improved further in current year as management had closely monitored the receivables collection process. The Group has not experienced significant bad debt problem on trade receivables and continued to maintain a healthy record of trade receivables turnover.

The inventory balance as at 31 December 2011 increased to RMB32,500,000 (2010: RMB29,591,000), which mainly represented the net effect of the reduced level of raw materials and higher balance of finished products. Inventory turnover days decreased from 78 days to 69 days because of the higher sales activities as well as the lower zircon stock balance being kept during the year. Management will continue to closely monitor the inventory level.

As at 31 December 2011, the Company had balances in advance payments to suppliers - petrochemical suppliers of RMB328,545,000 (2010: Nil) and bills payable of RMB551,450,000 (2010: Nil). There were no such balances as of prior year end because they arose in the petrochemicals business which was newly acquired during the year. According to the normal practice in this industry, Ningbo Bokun (the Group's subsidiary engaged in petrochemicals business) has to make advance payments to suppliers in the form of bank bills to secure the petrochemicals needed to fulfill an order from an end-customer. When Ningbo Bokun issues bank bills to the suppliers, it recognizes the amounts in the bills payable account and correspondingly in the advance payments to suppliers account. The balance of advance payments to suppliers would be reduced when the supplier delivers the goods to the end-customer. In these arrangements, Ninbo Bokun acts as an agent and therefore, it does not recognize the gross amount of sales and purchases in its profit and loss, but instead recognizes the margin as commission income in its revenue.

Share Capital Structure

During the year ended 31 December 2011, options were exercised to subscribe for 17,000,000 ordinary shares in the Company at a total consideration of HK$11,560,000 (equivalent to approximately RMB9,774,000).

On 6 January 2011, the Company issued 222,222,222 shares to settle part of the consideration for the acquisition of Muntari Holdings Limited. Balance of the consideration was partly settled by cash and partly by the Company's issuance of two convertible bonds, CB1 and CB2.

On 16 June 2011, the Company issued a total of 144,444,444 shares upon the conversion of CB1.

On 11 November 2011, the Company issued 129,606,099 shares to settle part of the consideration for the acquisition of Haney Holdings Limited, which is an investment holding company principally engaged in the oil storage and wholesale business in Weihai City, Shangdong Province, PRC, through certain contractual arrangements. However, due to the alleged breach of certain warranties by the vendor, the Company had taken legal action to seek for the rescission of the share transfer agreement for this transaction. In order to protect the Company's interest, we had served a court injunction order against the vendor to restrain his dealings of the 129,606,099 shares, pending for the result of the proposed rescission of the share transfer agreement. Detail information of the acquisition and the proposed rescission of the share transfer agreement after year end was disclosed in note 35 to the consolidated financial statements.

As at 31 December 2011, the total issued share capital of the Company was HK$129,170,632 (approximately equivalent to RMB123,332,000) divided into 2,583,412,645 ordinary shares with a par value of HK$0.05 each.

Exposure to Foreign Exchange Risk

The Group is exposed to foreign currency risk primarily through currency exposures in sales and purchases that are denominated in United State Dollars ("USD") with respect of RMB which is the Group's functional currency. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. It is the Group's policy that it will not engage in any speculative activities. During the year, the Group has not engaged in any hedging transactions.

Contingent Liabilities

As at 31 December 2011, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2011, the Group's bank deposit of RMB251,450,000 (2010: Nil) was pledged as securities for the banking facilities granted by its bankers.

Human Resources

As at 31 December 2011, the Group had a total of approximately 324 employees (2010: 348 employees). Total staff costs (including directors' emoluments) for the year was approximately RMB23,180,000 (2010: RMB12,868,000), representing 10% of the Group's turnover (2010: 8%). The significant increase in staff costs in current year despite the decrease in the number of staff was mainly resulted from the recognition of the fair value of the share options granted, amounted to RMB8,242,000 (2010: RMB706,000), as staff cost in accordance with the applicable accounting standards. In addition, the Group had commenced operation of the Binhai plant which resulted in the increase in labour costs for the Binhai plant.

Employees were remunerated based on their performance, experience and prevailing industry practice. Bonuses and rewards might also be awarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis. The Remuneration Committee of the Company's Board of Directors is responsible for overseeing and reviewing the remuneration packages of the Directors and senior management.

EXECUTIVE DIRECTORS

Mr. Yang Xin Min, aged 62, senior economist, is the founding Chairman, Managing Director and substantial shareholder of the Company. Mr. Yang graduated from the Beijing Economics Correspondence College. Since August 1977, Mr. Yang has been the General Manager of all predecessor entities of the Group. Mr. Yang has over 30 years' experience in the research, production management and international market development of zirconium chemicals. Mr. Yang is responsible for the formulation of the Group's overall business strategies and overseeing the daily operations of the Group.

Ms. Huang Yue Qin, aged 43, senior economist, is the General Manager and Head of the Sales, Purchasing and Marketing Departments of the Group's zirconium business. Ms. Huang joined the Group in 1991 and has over 10 years of import and export experience in the zirconium chemicals industry. Ms. Huang has frequently visited clients in the USA, Japan and Europe, and maintained very good relationship with the Group's overseas customers.

Mr. Zhou Quan, aged 53, joined the Group in 1993. Mr. Zhou is the Deputy General Manager of the Group's zirconium business and Better Batteries, mainly responsible for the management of safety, environmental protection and production of zirconium business and supervising the battery business. Mr. Zhou has extensive experience in business administration.

Mr. Li Fu Ping, aged 42, senior economist, is the Deputy General Manager of the Group. Mr. Li graduated from the Jiangsu University of Chemistry, where he majored in business administration, and was the chairman of the student union of the university. Since joining the Group in 1992, he has engaged in business administration and has been the secretary to the General Manager of the Group. As such, Mr. Li has accumulated extensive experience in business administration. He is a key member of the Group's internal audit committee for ISO9002 quality assurance accreditation and is in charge of the ISO14001 environmental management system. He is also responsible for intellectual property right management.

Mr. Fang Guo Hong, aged 46, was appointed as an executive director and the Chief Operating Officer of the Company in November 2009. Mr. Fang has nearly 20 years of experience in different companies engaging in manufacturing of various products, including insulation materials and fire-proof, wear-resistant materials mainly for use in power generating systems. He was also actively involved in the development of power industry wearable technology and has established a good network with the participants in the power industry in China. Mr. Fang was an executive director of Pan Asia Environmental Protection Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, during the period from March 2007 to March 2009.

NON-EXECUTIVE DIRECTOR

Mr. Wang Jia Wei, aged 56, was appointed as non-executive director and Vice Chairman of the Company in June 2011. Mr. Wang is the managing director of Ningbo Bokun Petrochemical Storage Co., Ltd. and Shanghai Bokun Investment Co., Ltd. Mr. Wang was a well-known athlete in the People's Republic of China (the "PRC"). He had been a major player and the principal coach of the National Men's Volleyball Team of China. Mr. Wang graduated from Nippon Sport Science University in Japan, majoring in Sports Psychology. Upon returning to the PRC, he started to engage in investment and project management of petrochemicals storage business, in which he has nearly 10 years' experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheng Faat Ting Gary, aged 44, was appointed as an independent non-executive director of the Company in November 2001. Dr. Cheng is the Chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Dr. Cheng holds a Doctor of Business Administration degree from the City University of Hong Kong with doctoral research area in "Independent Non-Executive Director and Corporate Governance". Dr. Cheng is a Fellow Certified Public Accountant in both Hong Kong and the United States of America ("USA") and a Certified Tax Advisor of the Taxation Institute of Hong Kong. Dr. Cheng received his Bachelor's degree in Accounting (Honours) and Master's degree of Business Administration from Southern Illinois University, USA, in 1992 and 1994 respectively. Dr. Cheng worked at the audit division of the international accounting firm, PricewaterhouseCoopers, and has over 17 years of experience in financial reporting, business advisory, auditing, accounting, tax investigation and liquidation. Dr. Cheng is currently the Managing Director of Gary Cheng CPA Limited. He is also a founding member of CityU Eminence Society.

Professor ("Prof.") Ji Chang Ming, aged 56, was appointed as an independent non-executive director of the Company in December 2009. Prof. Ji has over 30 years of experience in research and development of "Hydrology and Water Resources" specialty. Prof. Ji was graduated in 1978 at Wuhan University of Hydraulic and Electrical Engineering ("WUHEE", now known as Wuhan University), major in hydropower station dynamic system specialty. He continued his study in WUHEE and obtained his master degree and doctor's degree in hydrology and water resources in 1983 and 1988, respectively. Prof. Ji completed his postdoctoral research in the Department of Land, Air and Water Resources at University of California, Davis in 1990. Upon his return to China in 1990, Prof. Ji started to teach in WUHEE as associate professor. During the period from 1993 to 2004, Prof. Ji held various posts in WUHEE and Wuhan University including professor, PhD supervisor and a number of faculty management positions. Prof. Ji is currently a professor and PhD supervisor in the Renewable Energy School of North China Electric Power University. He is also a supervisor of the PhD program (part-time basis) in Wuhan University. In addition, Prof. Ji is also acting as the executive or vice chairman or committee member for 4 academic societies (including the China Society of Natural Resources), the editorial committee member of 3 major journals (including Journal of Hydroelectric Engineering), and the judging panel expert of The State Science and Technology Awards, etc.

Mr. Poon Lai Yin, Michael, aged 40, was appointed as an independent non-executive director of the Company in January 2010. Mr. Poon had acted as the Chief Financial Officer in two companies listed on the Growth Enterprise Market of the Stock Exchange since 2002, and was mainly responsible for the overall financial management, internal control function and accounting function. Mr. Poon has over 14 years of experience in financial reporting, business advisory, auditing, taxation, accounting, merger and acquisition. Mr. Poon is a fellow member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He holds a Bachelor's degree in Administrative Studies with York University in Canada and a Master's degree in Practicing Accounting with Monash University in Australia. Mr. Poon had been working for an international accounting firm and was responsible for providing business advisory and assurance services for some listed clients. Mr. Poon is the independent non-executive director of The Quaypoint Corporation Limited (Stock code: 2330) since November 2006, and was the independent non-executive director of Sun International Group Limited (Stock code: 8029) during the period from September 2008 to August 2011.

SENIOR MANAGEMENT

Ms. Li Mei Kuen, aged 43, is the Chief Financial Officer and Company Secretary of the Group. Ms. Li graduated from La Trobe University, Melbourne, Australia and received a bachelor degree in commerce (accounting). She is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Before joining the Group in 2004, Ms. Li has worked in two international accounting firms for over 9 years. She has been actively involved in the audit, listing and due diligence engagements of companies in various industries and has extensive experience in auditing and finance.

Ms. Wu Xi Hui, aged 43, graduated from Jiangsu Television University majoring in international trade and economics. Since joining the Group in 1991, Ms. Wu has been responsible for the financial function of the Group, and is currently the Finance Manager of Yixing Zirconium. She has extensive experience in financial management and has maintained good relationships with local and national tax authorities, customs departments, commodity inspection authorities, foreign exchange control authorities and various banks.

Ms. Sun Hong Di, aged 44, is the Deputy General Manager and Head of the Technology and Quality Control Department of the Group's zirconium business. Ms. Sun joined the Group in 1990 and has been responsible for quality control, analysis and monitoring of zirconium chemicals. Ms. Sun has been involved in devising the national quality standards for zirconium chemical products with the former Ministry of Chemical Industry of the PRC. Ms. Sun is the leader of the Group's working team for the ISO9002 accreditation and is also supervising the zirconium research and development works.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained.

Throughout the year, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code on CGP") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the deviation in respect of the appointment of the same person as the Chairman and the Chief Executive Officer ("CEO") of the Company. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

BOARD OF DIRECTORS

Composition

The Board is responsible for supervision of the management of the business and affairs, approval of strategic plans and reviewing of financial performance. The Board currently consists of five Executive Directors, one Non-executive director ("NED") and three Independent Non-executive Directors ("INEDs"):

Executive Directors	:	Mr. Yang Xin Min *(Chairman)* Ms. Huang Yue Qin Mr. Zhou Quan Mr. Li Fu Ping Mr. Fang Guo Hong
NED	:	Mr. Wang Jia Wei *(Vice Chairman)*
INEDs	:	Dr. Cheng Faat Ting Gary Prof. Ji Chang Ming Mr. Poon Lai Yin Michael

The Board membership is covered by professionally qualified and widely experienced personnel so as to bringing in valuable contribution and different professional advices and consultancy for the development of the Company. The number of INEDs represented one-third of the Board membership.

Biographies of all Directors are set out on pages 15 to 17.

Appointments, Re-election and Removal of Directors

Code provision A.4.1 of the Code on CGP stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 of the Code on CGP stipulates that all Directors appointed to fill a casual vacancy should be subject to election by Shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the INEDs and the NED has entered into a service contract with the Company for a term of two years. At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office.

A Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

Role and Function

Save for the Board meetings held between the Executive Directors during the normal course of business, the Board also conducted regular meetings of all board members during the year. Such Board meetings involve active participation, either in person or through other electronic means of communication, of a majority of the Directors. In addition, the Board members will also discuss on ad hoc issues through informal meetings and granted approval on material decisions by way of Board written resolutions in accordance with the Company's articles of association.

During the Year, five regular board meetings were held and the attendance of each Director is set out as follows:

Directors	**No. of meetings attended**
Mr. Yang Xin Min	5/5
Ms. Huang Yue Qin	5/5
Mr. Zhou Quan	5/5
Mr. Li Fu Ping	5/5
Mr. Fang Guo Hong	5/5
Mr. Wang Jia Wei (Appointed on 2 June 2011) *(Note 1)*	4/4
Dr. Cheng Faat Ting Gary	5/5
Prof. Ji Chang Ming	4/5
Mr. Poon Lai Yin Michael	5/5

Note 1: The no. of meetings attended were counted with reference to the applicable period in which the relevant Director was holding the office.

INEDs

The Company has appointed three INEDs, with two of them possess recognised accounting professional qualifications in Hong Kong or overseas.

The Company has received annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent within the definition of the Listing Rules.

Chairman and CEO

Under the Code on CGP, the roles of Chairman and CEO should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. Mr. Yang Xin Min has been the Chairman and the CEO of the Company since its incorporation and is in charge of the overall management of the Company and the Group. The Company considers that the combination of the roles of Chairman and CEO is conducive to strong and consistent leadership and can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its INEDs, a balancing mechanism between the Board and the management of the Company exists so that the interests of the shareholders are adequately and fairly represented.

BOARD COMMITTEES

There are three committees established under the Board:

(a) Audit Committee

The Audit Committee, comprises all INEDs of the Company, is chaired by Dr. Cheng Faat Ting Gary who is a professional accountant and has proven experience in audit, finance and accounting.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting than those set out in the Code on CGP. The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company. Each member of the Audit Committee has unrestricted access to the external auditors and all senior staff of the Group.

The Audit Committee held two meetings during the year, in particular, to review and discuss:

— the interim results and annual audited financial statements;

— the auditing and financial reporting matters, including the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2010;

— the appointment of external auditors; and

— the effectiveness of internal control procedures.

All issues raised by the Audit Committee have been addressed by the management of the Company. The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the management of the Company were of sufficient importance to require disclosure in the Annual Report.

The Board agrees with the Audit Committee's proposal for the reappointment of KPMG as the Company's external auditors for 2012. The recommendation will be put forward for the approval of the shareholders of the Company at the Annual General Meeting to be held on 1 June 2012.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comment and record respectively.

During 2011, the Company's external auditors received approximately RMB1,821,000 for annual audit service and approximately RMB668,000 for non-audit services (including mainly the transaction advisory service) during the year.

(b) Remuneration Committee

The Remuneration Committee consists of the Chairman and two INEDs. The Remuneration Committee members were:

Dr. Cheng Faat Ting Gary *(Chairman)*
Mr. Yang Xin Min
Prof. Ji Chang Ming

The Company formulated written terms of reference of the Remuneration Committee based on terms no less exacting than the required standard as set out in the Code on CGP. The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the Directors and senior management. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management. The Remuneration Committee meets at least once a year. The Remuneration Committee had reviewed the remuneration packages of all Directors and made recommendation to the Board during the year.

During the year ended 31 December 2011, Mr. Fang Guo Hong, Executive Director, had entered into a supplemental service agreement (after reviewed and approved by the Remuneration Committee) with the Company which, among others, revised his emoluments from cash basis to equity-settled share-based payment basis. Accordingly, Mr. Fang had waived his right to receive the cash emoluments that was payable to him by the Company, amounted to HK$524,000 (equivalent to approximately RMB434,000) during the year. Mr. Fang did not waive any emoluments during the year ended 31 December 2010.

Save for disclosed above, the Company did not have any other arrangement under which a Director has waived or agreed to waive any emoluments during the year.

(c) Nomination Committee

The Nomination Committee consists of the following members:

Dr. Cheng Faat Ting Gary *(Chairman)*
Prof. Ji Chang Ming
Mr. Poon Lai Yin Michael

The Company formulated written terms of reference of the Nomination Committee based on terms no less exacting than the required standard as set out in the Code on CGP.

The Nomination Committee meets at least once a year. The Committee's members' primary roles and functions are to assess and recommend the appointment and re-appointment of Directors to the Board, as well as overseeing the appointment, management succession planning and performance evaluation of key senior management of the Company.

The Nomination Committee has reviewed and is of the opinion that the current size and composition of the Board is adequate to facilitate effective decision-making. The Nomination Committee is also satisfied that the Board comprises directors, who, as a group, provide the core competencies necessary to guide the Group.

A proposal for the appointment of a new Director will be considered and reviewed by the Nomination Committee. Candidates to be selected and recommended are those experienced, high calibre individuals. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules.

A candidate who is to be appointed as an INED should also meet the independence criteria as set out in Rule 3.13 of the Listing Rules.

Attendance Record at Board Committee Meetings

The following table shows the attendance of Directors at the Board Committee meetings during the Year:

	No. of meetings attended		
Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. Yang Xin Min	N/A	1/1	N/A
Dr. Cheng Faat Ting Gary	2/2	1/1	1/1
Prof. Ji Chang Ming	2/2	1/1	1/1
Mr. Poon Lai Yin Michael	2/2	N/A	1/1

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct rules (the "Code of Conduct") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry with all Directors, the Company confirms that all the Directors have complied with the required standard set out in the Code of Conduct and the Model Code throughout the Year.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 40 to 41.

INTERNAL CONTROLS

The Board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure and to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud. The Board is of the view that the system of internal controls in place for the Year and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets.

Since the petrochemical business was newly acquired duirng the year, the Company had performed a review of the internal controls at the main operating office of Muntari Holdings Limited ("Muntari") located at Ningbo City and no significant control weaknesses were identified. Mr. Wang Jia Wei ("Mr. Wang"), Non-executive Director and Vice Chairman of the Company, was designated as the managing director and legal representative of Ningbo Bokun Petrochemical Storage Co., Ltd. ("Ningbo Bokun") and was mainly responsible for the management of the Group's petrochemicals business. The General Manager of Ningbo Bokun was responsible for overseeing the daily operation of the company and reported directly to Mr. Wang on all operational matters. There were also proper segregation of duties in the finance department among the authorisation, execution, approval and record-keeping functions. The Finance Manager was responsible for the review of monthly financial statements of Ningbo Bokun and other subsidiaries (mainly investment holding companies) of Muntari, and reported directly to Mr. Wang and the Company's Chief Financial Officer on a regular basis. Mr. Wang communicated regularly with the Chairman of the Company and will report to the Board during the regular board meertings on any unusual matters noted in the petrochemical segement. The Board considered that the internal control measures of Muntari and its wholly-owned subsidiaries were sufficient and operating effectively.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairmans of the Board, of the Audit Committee and of the Remuneration Committee are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 20 business days before the annual general meeting. It sets out the procedures for conducting a poll and other relevant information of the proposed resolutions.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner. Printed copies of the Annual Report 2010 and Interim Report 2011 were sent to all shareholders.

All the reports, announcements and circulars that had been filed by the Company with the regulatory authorities can be reviewed at and downloaded from the Company's website at www.chinazirconium.com.hk.

PRINCIPAL ACTIVITIES

The Group is principally engaged in (i) the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials and rechargeable batteries; and (ii) petrochemicals storage and wholesale business.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 (the "Year") are set out in the consolidated income statement on page 42.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

The register of members of the Company will be closed from 30 May 2012 (Wednesday) to 1 June 2012 (Friday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the Company's annual general meeting to be held on 1 June 2012, all transfer documents accompanied by the relevant share certificates must be lodged with either one of the Company's branch share registrars listed below for registration by no later than 4:30 p.m. on 29 May 2012 (Tuesday):

In Hong Kong:
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

In Canada:
Computershare Investor Services Inc.
100 University Ave., 9th Floor
Toronto, Ontario M5J 2Y1
Canada

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 4.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the Year are set out in note 12 to the financial statements.

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the convertible bonds and share capital of the Company during the Year are set out in note 26 and 30 to the financial statements respectively.

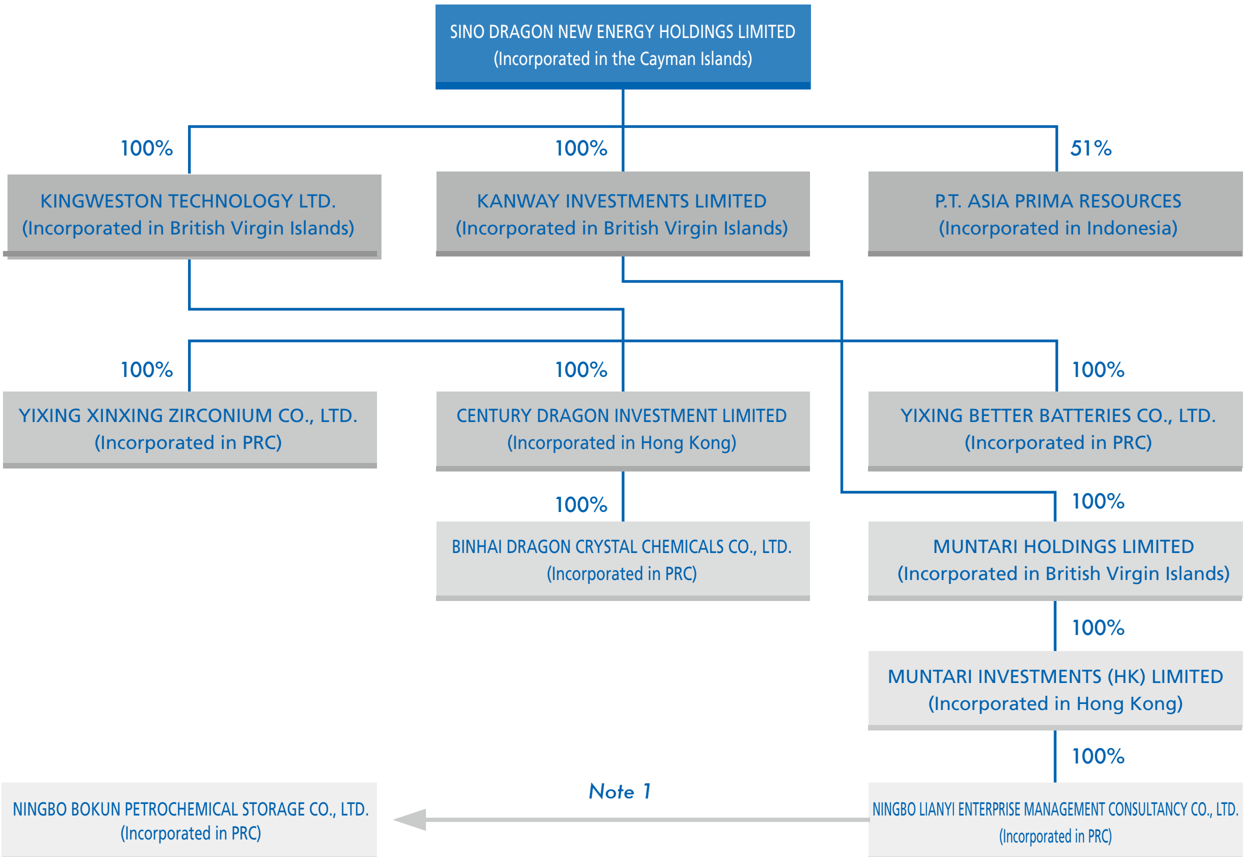
RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 47.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law of the Cayman Islands and the Company's articles of association, in addition to the retained profits of the Company, the ordinary share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2011 amounted to approximately RMB504,313,000 (2010: RMB341,616,000).

GROUP STRUCTURE



Note 1: Control the subsidiary through a series of contractual arrangements and enjoy 100% of its economic benefits

DIRECTORS

The Directors who held office during the year and as at the date of this report are shown below. Their biographies are set out on pages 15 to 17.

Executive Directors

Mr. Yang Xin Min, Chairman and Managing Director
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Li Fu Ping
Mr. Fang Guo Hong

Non-Executive Director

Mr. Wang Jia Wei (Appointed on 2 June 2011), Vice Chairman

Independent Non-Executive Directors

Dr. Cheng Faat Ting Gary
Prof. Ji Chang Ming
Mr. Poon Lai Yin Michael

Each of the above Directors has entered into a service contract with the Company for an initial term of three or two years. Each service contract will continue thereafter unless terminated by either party thereto giving to the other at least three months' notice (Executive Directors) or one month's notice (Independent Non-executive Directors and Non-executive Director) in writing.

The Company has received from each of the Independent Non-Executive Directors a confirmation letter of his independence pursuant to paragraph 12B of Appendix 16 of the Listing Rules and considers each of the Independent Non-Executive Directors is independent.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2011, the interests of the Directors and the chief executive of the Company in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

		Number of Shares				
Name of Director	**Capacity**	**Personal Interest**	**Other Interests** *(Note 1)*	**Interest In Underlying Shares** *(Note 2)*	**Total Interests**	**Percentage of Total Share Capital**
Yang Xin Min	Beneficial	592,045,880	1,600,000	—	593,645,880	22.98%
Huang Yue Qin	Beneficial	—	600,000	—	600,000	0.02%
Zhou Quan	Beneficial	40,000	600,000	—	640,000	0.02%
Li Fu Ping	Beneficial	144,000	600,000	—	744,000	0.03%
Fang Guo Hong	Beneficial	14,332,000	22,480,000	—	36,812,000	1.42%
Wang Jia Wei	Beneficial	366,666,666	600,000	144,444,444	511,711,110	19.80%
Cheng Faat Ting Gary	Beneficial	200,000	200,000	—	400,000	0.015%
Ji Chang Ming	Beneficial	—	400,000	—	400,000	0.015%
Poon Lai Yin Michael	Beneficial	—	200,000	—	200,000	0.008%

Notes:

1. Other interests represented the number of underlying shares comprised in the share options granted to the Directors but remained outstanding as at 31 December 2011.

2. The 144,444,444 underlying shares were comprised in a convertible bond issued by the Company to Sinobright Petroleum Management Holding Co Limited ("Sinobright") on 6 January 2011. Mr. Wang Jia Wei was the sole beneficial owner of Sinobright and therefore was deemed to have an interest in the 144,444,444 underlying shares.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2011, so far as was known to the Directors and the chief executive of the Company, the following persons had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

		Number of Shares				
Name of Shareholder	**Capacity**	**Personal Interest**	**Other Interests** *(Note 1)*	**Interest In Underlying Shares** *(Note 2)*	**Total Interests**	**Percentage of Total Share Capital**
Yang Xin Min	Beneficial	592,045,880	1,600,000	—	593,645,880	22.98%
Wang Jia Wei	Beneficial	366,666,666	600,000	144,444,444	511,711,110	19.80%
Wang Xiao Ping Peter *(Note 3)*	Beneficial	129,606,099	—	—	129,606,099	5.02%

Notes:

1. Other interests represented the number of underlying shares comprised in the share options granted to the Directors but remained outstanding as at 31 December 2011.

2. The 144,444,444 underlying shares were comprised in a convertible bond issued by the Company to Sinobright Petroleum Management Holding Co Limited ("Sinobright") on 6 January 2011. Mr. Wang Jia Wei was the sole beneficial owner of Sinobright and therefore was deemed to have an interest in the 144,444,444 underlying shares.

3. The 129,606,099 shares held by Mr. Wang Xiao Ping Peter ("Mr Wang") are subject to a court injunction order dated 9 March 2012 ("Order") which restrained Mr. Wang from selling, transferring, disposing, charging, mortgaging, pledging or otherwise encumbering or dealing with any of these shares. The Order will remain in force up to and including 11 May 2012 unless before then the Order is varied or discharged by a further Order.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors had any interest, either direct or indirect, in any business, which may compete or constitute a competition with the business of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors of the Company had a material interest, either direct or indirect, in any significant contract to which the Company or its holding companies or any of its subsidiaries was a party at the Year end or during the Year.

At no time during the Year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

SHARE OPTIONS GRANTED PURSUANT TO THE SHARE OPTION SCHEME

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the "Old Scheme") was approved and adopted. The Old Scheme was terminated by a resolution passed by the shareholders in the Company's annual general meeting held on 27 May 2011. No further options will be granted under the Old Scheme but in all other respects the provisions of the Old Scheme shall remain in full force and effect.

On 27 May 2011, the shareholders passed a resolution in the annual general meeting to approve and adopt a new Share Option Scheme (the "New Scheme") and the Board may, at its discretion, grant options ("Options") to Eligible Participants as defined in (ii) below.

(i) Purpose

The purpose of the New Scheme is to enable the Company to grant Options to Eligible Participants as incentives or rewards for their contribution to the Company and/or any of its subsidiaries. Through the New Scheme, the Company can motivate and reward the Eligible Participants who have contributed to the Company by enhancing its performance, improving its management and operation, and providing it with good advice and ideas.

(ii) Eligible Participants

The Eligible Participants of the New Scheme to whom Option(s) may be granted by the Board shall include any employees, Non-Executive Directors, Directors, advisors, consultants, and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities.

(iii) Maximum number of shares

(a) The total number of Shares which may be issued upon exercise of all Options which may be granted under the New Scheme and any other share option schemes of the Company ("Scheme Mandate Limit") shall not exceed 10% of the total number of Shares in issue as at the date on which the New Scheme will be approved and adopted by the Shareholders, unless the Company obtains a refresh approval from the Shareholders pursuant to paragraph (b) below. Options lapsed in accordance with the terms of the New Scheme shall not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.

(b) The Company may seek approval of the Shareholders in general meetings to renew the Scheme Mandate Limit provided that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of the approval of the renewal by the Shareholders. Upon any such renewal, all Options granted under the New Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the New Scheme and any other share option schemes of the Company and exercised options) prior to the approval of such renewal shall not be counted for the purpose of calculating whether the renewed Scheme Mandate Limit has been exceeded. In seeking the approval, the Company shall send a circular to the Shareholders.

(c) The Company may grant Options to the Eligible Participant(s) beyond the Scheme Mandate Limit if the grant of such Options is specifically approved by the Shareholders in general meeting. In seeking such approval, a circular must be sent to the Shareholders containing a generic description of the identified Eligible Participant(s), the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Participant(s), and how the terms of these Options serve such purpose.

Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Scheme and options which may be granted under any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

(iv) Maximum entitlement of each Eligible Participant

(a) The total number of Shares issued and to be issued upon exercise of the Options granted under the New Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding Options) to each Eligible Participant in any 12-month period must not exceed 1% of the then total issued share capital of the Company (the "Individual Limit").

(b) Any further grant of Options to an Eligible Participant in excess of the Individual Limit (including exercised, cancelled and outstanding Options) in any 12-month period up to and including the date of such further grant must be subject to the Shareholders' approval in general meeting of the Company with such Eligible Participant and his associates abstaining from voting. A circular must be sent to the Shareholders disclosing the identity of the identified Eligible Participant(s), the number and terms of the Options granted and to be granted, the number and terms of Options to be granted to such identified Eligible Participant(s) must be fixed before the Shareholders' approval and the date of meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price.

(v) Offer acceptance period and Option price

An offer of grant of an Option may be accepted by an Eligible Participant within 28 days from the date of the offer of grant of the Option. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an Option. To the extent that the offer of grant of an Option is not accepted within twenty-eight (28) days from the date on which the offer for the grant of Options is made in the manner indicated herein, it will be deemed to have been irrevocably declined and lapsed automatically.

(vi) Timing for exercise of Options

An Option shall be exercisable in whole or in part and in accordance with the terms of the New Scheme at any time during a period to be determined and notified by the Directors to each Grantee, which period may commence on the day on which the offer for the grant of Options is made but shall end in any event not later than 10 years commencing from the date the Board makes an offer of the grant of an Option subject to the provisions for early termination thereof. The Directors have the discretion to impose a minimum period for which an Option has to be held before the exercise of the subscription rights attaching thereto on case by case basis.

(vii) Subscription price

Subject to the adjustment made in accordance with the terms of the New Scheme, the exercise price in respect of any particular Option shall be such price as determined by the Board in its absolute discretion at the time of making the offer of grant of an option (which shall be stated in the letter containing the offer of grant of an option) but in any case the exercise price must be at least the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

For the year ended 31 December 2011, no Options (2010: 57,400,000) have been granted under the Old Scheme and 32,680,000 Options (2010: not applicable) have been granted under the New Scheme.

Details of the movement of the Options granted and exercised during the year were as follows:

				Number of Options *(Note 1)*			
Name of Grantee	**Date of Grant**	**Exercisable Period**	**Subscription Price per Share** *(Note 1)*	**Outstanding as at 31 December 2010**	**Granted during the year**	**Exercised or Expired during the year**	**Outstanding as at 31 December 2011**
Directors:							
Yang Xin Min	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	—	1,600,000	—	1,600,000
Zhou Quan	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	—	600,000	—	600,000
Huang Yue Qin	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	—	600,000	—	600,000
Li Fu Ping	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	—	600,000	—	600,000
Fang Guo Hong	14 June 2011	14 June 2011 to 13 June 2013	HK$0.818	—	22,480,000	—	22,480,000
Cheng Faat Ting Gary	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	—	200,000	—	200,000
Ji Chang Ming	31 May 2010	31 May 2010 to 30 May 2015	HK$0.261	200,000	—	—	200,000
Ji Chang Ming	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	—	200,000	—	200,000
Poon Lai Yin Michael	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	—	200,000	—	200,000
Wang Jia Wei	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	—	600,000	—	600,000
Subtotal				200,000	27,080,000	—	27,280,000

Name of Grantee	Date of Grant	Exercisable Period	Subscription Price per Share *(Note 1)*	Number of Options *(Note 1)* Outstanding as at 31 December 2010	Granted during the year	Exercised or Expired during the year	Outstanding as at 31 December 2011
Employee	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	—	600,000	—	600,000
Consultants:							
Goldpac Investments Ltd.	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	600,000	—	—	600,000
Others in aggregate	3 December 2010	3 December 2010 to 2 December 2012	HK$0.68	51,000,000	—	(17,000,000)	34,000,000
A consultant	21 July 2011	21 July 2011 to 20 July 2013	HK$0.86	—	5,000,000	—	5,000,000
Subtotal				51,600,000	5,000,000	(17,000,000)	39,600,000
Grand Total				51,800,000	32,680,000	(17,000,000)	67,480,000

Note 1: Certain Subscription Price per Share and number of Options shown in the table above had been restated to reflect the effect of the 1 to 20 subdivision of Shares which took effect from 9 November 2009.

CONNECTED TRANSACTIONS

During the year ended 31 December 2011, the Group did not carry out any transaction that was required to be disclosed as connected transactions pursuant to the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 18 to 25.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 13% and 38% of the Group's total turnover for the Year respectively; and the aggregate purchases from the largest and the five largest suppliers of the Group accounted for approximately 20% and 64% of the Group's total purchases for the Year, respectively.

As far as the Directors are aware, none of the Directors of the Company, their respective associates (as defined in the Listing Rules), and the existing shareholders of the Company who own more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during the Year.

RESPONSIBILITY OF DIRECTORS ON FINANCIAL STATEMENTS

The Companies Ordinance requires the Directors to prepare financial statements for each financial year. Such financial statements should give a true and fair view of the state of affairs of the Company and of the Group as at the balance sheet date of a particular year and on the profit and loss of the Company and the Group for the year then ended. In preparing the financial statements, the Directors should:

(a) select and apply consistently appropriate accounting policies, make prudent, fair and reasonable judgement and estimation;

(b) report the reasons for any seriously deviation from accounting practice; and

(c) prepare the financial statements on going concern basis, unless it is inappropriate to assume the Company and the Group could continue to operate.

The Directors are responsible for the proper keeping of accounting record in order to secure assets of the Company and the Group. The Directors are also responsible for adopting reasonable measures to prevent and check any fraudulences and irregularities.

DONATIONS

For the year ended 31 December 2011, the Group made RMB350,000 donations to charitable organisations and charity funds in the PRC (2010: RMB250,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

PRE-EMPTIVE RIGHTS

The is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the Year.

NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Details of non-adjusting events after the reporting period are set out in note 35 to the financial statements.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as the Company's auditors is to be proposed at the forthcoming annual general meeting.

By order of the Board
Huang Yue Qin
Executive Director

30 March 2012

to the shareholders of

Sino Dragon New Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sino Dragon New Energy Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 42 to 140, which comprise the consolidated and company statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Auditor's responsibility *(continued)*

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2012

Consolidated income statement

for the year ended 31 December 2011 (Expressed in Renminbi)

	Note	**2011** **RMB'000**	2010 RMB'000
Turnover	3	**223,855**	153,234
Cost of sales		**(185,082)**	(140,372)
Gross profit		**38,773**	12,862
Other revenue	4	**6,377**	631
Other net income/(loss)	4	**51,281**	(141)
Distribution costs		**(4,786)**	(5,644)
Administrative expenses		**(40,979)**	(39,060)
Other operating expenses		**(3,287)**	(1,750)
Impairment of non-current assets	12(c)	**(53,777)**	(117,312)
Impairment of goodwill	16	**(235,356)**	—
Loss from operations		**(241,754)**	(150,414)
Net finance income/(costs)	5(a)	**3,500**	(619)
Loss before taxation	5	**(238,254)**	(151,033)
Income tax credit	6(a)	**4,154**	6,027
Loss for the year		**(234,100)**	(145,006)
Attributable to:			
Equity shareholders of the Company		**(234,097)**	(144,739)
Non-controlling interests		**(3)**	(267)
Loss for the year		**(234,100)**	(145,006)
Loss per share			
Basic *(cents)*	10(a)	**(9.75)**	(8.21)
Diluted *(cents)*	10(b)	**(10.78)**	(8.21)

The notes on pages 50 to 140 form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2011 (Expressed in Renminbi)

	2011	2010
	RMB'000	*RMB'000*
Loss for the year	**(234,100)**	(145,006)
Other comprehensive income for the year (after tax and reclassification adjustments)		
Exchange differences on translation of:		
— financial statements of operations outside the People's Republic of China ("the PRC")	**3.406**	(1,228)
	3,406	(1,228)
Total comprehensive income for the year	**(230,694)**	(146,234)
Attributable to:		
Equity shareholders of the Company	**(230,691)**	(145,974)
Non-controlling interests	**(3)**	(260)
Total comprehensive income for the year	**(230,694)**	(146,234)

The notes on pages 50 to 140 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2011 (Expressed in Renminbi)

	Note	**2011** **RMB'000**	2010 RMB'000
Non-current assets			
Property, plant and equipment	12	**174,804**	69,345
Construction in progress	13	**24,967**	76
Lease prepayments	14	**61,082**	62,796
Intangible assets	15	**167,302**	6
Long-term prepayments	18	**26,995**	11,053
Goodwill	16	**20,217**	—
Deferred tax assets	29(b)	**116,744**	105,213
Total non-current assets		**592,111**	248,489
Current assets			
Inventories	19	**32,500**	29,591
Trade and other receivables and prepayments	20	**379,328**	53,481
Amounts due from related parties	23 and 33(a)	**2,962**	863
Lease prepayments	14	**1,597**	1,597
Pledged deposits	21	**251,450**	—
Deposits maturing beyond three months when placed	22	**17,000**	—
Cash and cash equivalents	22	**66,546**	276,802
Total current assets		**751,383**	362,334
Total assets		**1,343,494**	610,823
Current liabilities			
Trade and other payables	24	**612,693**	62,483
Interest-bearing bank borrowings	25	**20,000**	—
Amounts due to related parties	23 and 33(a)	**18,120**	1,522
Current taxation	29(a)	**21,515**	19,637
Total current liabilities		**672,328**	83,642

Consolidated statement of financial position *(continued)*

at 31 December 2011 (Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Net current assets		**79,055**	278,692
Total assets less current liabilities		**671,166**	527,181
Non-current liabilities			
Deferred tax liabilities	29(b)	**47,808**	—
Convertible bonds	26	**35,391**	—
Derivative financial instruments	26	**17,440**	—
Total non-current liabilities		**100,639**	—
NET ASSETS		**570,527**	527,181
CAPITAL AND RESERVES			
Share capital	30(b)	**123,332**	101,850
Reserves		**447,199**	425,332
Total equity attributable to equity shareholders of the Company		**570,531**	527,182
Non-controlling interests		**(4)**	(1)
TOTAL EQUITY		**570,527**	527,181

Approved and authorised for issue by the board of directors on 30 March 2012

Yang Xin Min
Director

Huang Yue Qin
Director

The notes on pages 50 to 140 form part of these financial statements.

Statement of financial position

at 31 December 2011 (Expressed in Renminbi)

	Note	**2011** **RMB'000**	2010 RMB'000
Non-current assets			
Interest in subsidiaries	17	**517,575**	269,250
Current assets			
Other receivables	20	**11,643**	12,179
Cash and cash equivalents	22	**1,377**	118,963
		13,020	131,142
Current liabilities			
Other payables	24	**1,850**	2,264
Amounts due to related parties	23	**1,796**	2,735
		3,646	4,999
Net current assets		**9,374**	126,143
Total assets less current liabilities		**526,949**	395,393
Non-current liabilities			
Convertible bonds	26	**35,391**	—
Derivative financial instruments	26	**17,440**	—
Total non-current liabilities		**52,831**	—
NET ASSETS		**474,118**	395,393
CAPITAL AND RESERVES	30(a)		
Share capital		**123,332**	101,850
Reserves		**350,786**	293,543
TOTAL EQUITY		**474,118**	395,393

Approved and authorised for issue by the board of directors on 30 March 2012

Yang Xin Min	**Huang Yue Qin**
Director	*Director*

The notes on pages 50 to 140 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2011 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company										
	Share capital	Merger reserve	Share premium	Statutory reserves	Capital reserve	Exchange reserve	Amount receivable in respect of consideration shares issued to the vendor	Retained profits/ (Accumulated losses)	Total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 30(b))	*(Note 30(d))*	*(Note 30(d))*	*(Note 30(d))*	*(Note 30(d))*	*(Note 30(d))*	*(Note 35)*				
Balance at 1 January 2010	82,598	(11,085)	289,360	92,749	275	(5,030)	—	65,570	514,437	259	514,696
Changes in equity for 2010:											
Loss for the year	—	—	—	—	—	—	—	(144,739)	(144,739)	(267)	(145,006)
Other comprehensive income	—	—	—	—	—	(1,235)	—	—	(1,235)	7	(1,228)
Total comprehensive income	—	—	—	—	—	(1,235)	—	(144,739)	(145,974)	(260)	(146,234)
Shares issued under placement, net of issuing costs	18,902	—	124,866	—	—	—	—	—	143,768	—	143,768
Shares issued under share option scheme	350	—	2,476	—	(914)	—	—	—	1,912	—	1,912
Equity settled share-based transactions	—	—	—	—	13,039	—	—	—	13,039	—	13,039
Balance at 31 December 2010	101,850	(11,085)	416,702	92,749	12,400	(6,265)	—	(79,169)	527,182	(1)	527,181

Consolidated statement of changes in equity *(continued)*

for the year ended 31 December 2011 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company										
	Share capital	Merger reserve	Share premium	Statutory reserves	Capital reserve	Exchange reserve	Amount receivable in respect of consideration shares issued to the vendor	Retained profits/ (Accumulated losses)	Total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 30(b))	*(Note 30(d))*	*(Note 30(d))*	*(Note 30(d))*	*(Note 30(d))*	*(Note 30(d))*	*(Note 35)*				
Balance at 1 January 2011	101,850	(11,085)	416,702	92,749	12,400	(6,265)	—	(79,169)	527,182	(1)	527,181
Changes in equity for 2011:											
Loss for the year	—	—	—	—	—	—	—	(234,097)	(234,097)	(3)	(234,100)
Other comprehensive income	—	—	—	—	—	3,406	—	—	3,406	—	3,406
Total comprehensive income	—	—	—	—	—	3,406	—	(234,097)	(230,691)	(3)	(230,694)
Issue of consideration shares in relation to acquisition of Muntari Holdings Limited *(Note 34)*	9,464	—	157,107	—	—	—	—	—	166,571	—	166,571
Issue and anticipated cancellation of consideration shares in relation to acquisition of Haney Holdings Limited *(Note 35)*	5,291	—	77,984	—	—	—	(83,275)	—	—	—	—
Shares issued upon conversion of convertible bonds	6,008	—	81,970	—	—	—	—	—	87,978	—	87,978
Shares issued under share option scheme	719	—	13,166	—	(4,111)	—	—	—	9,774	—	9,774
Equity settled share-based transactions	—	—	—	—	9,717	—	—	—	9,717	—	9,717
Appropriation to statutory reserve	—	—	—	2,703	—	—	—	(2,703)	—	—	—
Balance at 31 December 2011	123,332	(11,085)	746,929	95,452	18,006	(2,859)	(83,275)	(315,969)	570.531	(4)	570,527

The notes on pages 50 to 140 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2011 (Expressed in Renminbi)

	Note	**2011** *RMB'000*	2010 *RMB'000*
Operating activities			
Cash generated from/(used in) operations	22(b)	**31,848**	(32,262)
Income tax paid		**(15,853)**	—
Net cash generated from/(used in) operating activities		**15,995**	(32,262)
Investing activities			
Acquisition of subsidiaries, net of cash acquired	34	**(94,240)**	—
Payment for the purchase of property, plant and equipment		**(16,743)**	(4,304)
Payment for construction in progress		**(33,621)**	(46,290)
Increase in long-term prepayments		**(48,975)**	(12,852)
Interest received		**9,444**	114
(Placement)/withdrawal of deposits maturing beyond three months when placed		**(17,000)**	162
Net cash used in investing activities		**(201,135)**	(63,170)
Financing activities			
Repayment of bank borrowings		**(49,000)**	—
Proceeds from bank borrowings		**20,000**	—
Proceeds from shares issued, under placement, net of issuing costs	30(c)	**—**	143,768
Proceeds from exercise of share options	30(c)	**9,774**	1,912
Interest paid		**(2,996)**	—
Net cash (used in)/generated from financing activities		**(22,222)**	145,680
Net (decrease)/increase in cash and cash equivalents		**(207,362)**	50,248
Cash and cash equivalents at 1 January		**276,802**	229,974
Effect of foreign exchange rate changes		**(2,894)**	(3,420)
Cash and cash equivalents at 31 December	22	**66,546**	276,802

The notes on pages 50 to 140 form part of these financial statements.

1 Significant accounting policies

Sino Dragon New Energy Holdings Limited (the "Company") was incorporated in the Cayman Islands on 18 July 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's principal place of business is No.68 Hongxin Road, Xushe Town, Yixing City, Jiangsu Province, the People's Republic of China (the "PRC"). The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") in 2002.

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group principally is engaged in the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials, rechargeable batteries, and storage and trading business of petrochemicals.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB").

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis. Items included in the financial statements of each entity comprising 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"). For the purposes of presenting the consolidated financial statements, the Group adopted Renminbi as its presentation currency, rounded to the nearest thousand.

1 Significant accounting policies *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IAS 24 (revised 2009), Related party disclosures

— Improvements to IFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of these developments are discussed below:

— IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

1 Significant accounting policies *(continued)*

(c) Changes in accounting policies *(continued)*

— Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments in note 31 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

1 Significant accounting policies *(continued)*

(d) Subsidiaries and non-controlling interests *(continued)*

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(l)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1 Significant accounting policies *(continued)*

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings held for own use which are situated on leasehold land classified as held under operating leases are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

—	Machinery and equipment	4–22 years
—	Office equipment and fixtures	4–8 years
—	Motor vehicles	4–8 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(l)). Cost comprises direct costs of construction and borrowing costs (see note 1(y)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Lease prepayments

Lease prepayments represent payments made to acquire land use rights paid to the PRC land bureau and Indonesian government. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 1(l)). Amortisation of land use rights is charged to profit or loss on a straight-line basis over the useful life of 50 years.

1 Significant accounting policies *(continued)*

(j) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(l)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

—	Technical know-how	5 years
—	Operating license	21 years and 8 months
—	Backlog	1 years and 5 months

Both the period and method of amortisation are reviewed annually.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

1 Significant accounting policies *(continued)*

(k) Leased assets *(continued)*

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities and current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

1 Significant accounting policies *(continued)*

(l) Impairment of assets *(continued)*

(i) Impairment of investments in debt and equity securities and receivables *(continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(l)(ii).

— For current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For other current receivables carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated recoverable amount.

1 Significant accounting policies *(continued)*

(l) Impairment of assets *(continued)*

(i) Impairment of investments in debt and equity securities and receivables *(continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— lease prepayments;

— intangible assets;

— construction in progress;

— long-term prepayments; and

— goodwill.

1 Significant accounting policies *(continued)*

(l) Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1 Significant accounting policies *(continued)*

(l) Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and (ii)).

(m) Inventories

Inventories are carried at the lower of cost and net realisable 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.

Net realisable 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.

1 Significant accounting policies *(continued)*

(m) Inventories *(continued)*

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

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(o) Convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 1(f)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 1(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

1 Significant accounting policies *(continued)*

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

1 Significant accounting policies *(continued)*

(t) Share-based payments

The fair value of share options granted to grantees is recognised as an administrative expense with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the grantees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to theshare premium account) or the option expires (when it is released directly to retained profits).

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 Significant accounting policies *(continued)*

(u) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 Significant accounting policies *(continued)*

(u) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 Significant accounting policies *(continued)*

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the related risks and rewards of ownership, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods returns.

(ii) Commission income

Commission income is recognised upon provision of services.

(iii) Storage service income

Storage service income is recognised when the related services are provided, on a time proportion basis over the storage terms.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method, and is included in net finance costs.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised as revenue in profit or loss upon satisfaction of the conditions attaching to the grants/deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

1 Significant accounting policies *(continued)*

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the date the fair value was determined.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that operation outside the PRC is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1 Significant accounting policies *(continued)*

(z) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to equity shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares which include share options granted.

(aa) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(bb) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

1 Significant accounting policies *(continued)*

(bb) Related parties *(continued)*

(b) An entity is related to the Group if any of the following conditions applies: *(continued)*

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(cc) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Accounting judgements and estimates

Key sources of estimation uncertainty

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 significant accounting policies are set forth in note 1. In addition to notes 28 and 31 which contain information about assumptions relating to fair value of share options granted and financial instruments respectively, the Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(i) Impairment of assets

The Group reviews the carrying amounts of the assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares a discounted future cash flow to assess the differences between the carrying amount and value in use and provide for impairment losses, if appropriate. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision for impairment losses and affect the net asset value of the Group and the Company.

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the results of the Group and the Company in future years.

(ii) Write-down of inventories

The Group reviews the carrying amounts of the inventories atthe end of each reporting period to determine whether the inventories are carried at the lower of cost and net realisable value in accordance with accounting policy as set out in note 1(m). Management estimates the net realisable value based on the current market situation and historical experience for similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net asset value.

2 Accounting judgements and estimates *(continued)*

Key sources of estimation uncertainty *(continued)*

(iii) Recognition of deferred tax assets

Recognition of deferred tax assets, which principally relates to deductible temporary differences and tax losses, depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which deferred tax assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

(iv) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(v) Fair value of assets acquired and liabilities assumed upon acquisition of subsidiaries

In connection with acquisition of subsidiaries, the assets acquired and liabilities assumed are adjusted to their estimated fair values on date of acquisition. The determination of fair values of the assets acquired and liabilities assumed involves management's judgement and assumptions. Any change in such judgement and assumptions would affect the fair value of assets acquired and liabilities assumed and would change the amount of depreciation or amortisation expenses recognised relating to those identifiable property, plant and equipment and intangible assets.

3 Turnover

The principal activities of the Group are the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials, rechargeable batteries, and storage and wholesale business of petrochemicals.

Turnover represents the sales value of goods sold, commission income and storage service income less returns, discounts, and value added taxes and other sales taxes. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2011 ***RMB'000***	2010 *RMB'000*
Sales of zirconium and new energy materials	**163,592**	137,706
Sales of rechargeable batteries	**17,532**	15,528
Commission income	**11,150**	—
Storage service income	**31,581**	—
	223,855	153,234

The Group's customer base is diversified and includes only two customers with whom transactions have exceeded 10% of the Group's revenues. In 2011, revenues from sales of zirconium compounds to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB51 million (2010: RMB36 million) and all related to the sale of zirconium compounds. Details of concentrations of credit risk arising from these customers are set out in note 31(a).

Further details regarding the Group's principal activities are disclosed in note 11 to these financial statements.

4 Other revenue and other net income/(loss)

	2011	2010
	RMB'000	*RMB'000*
Other revenue		
Government grants (note)	**6,377**	631
Other net income/(loss)		
Change in fair value of convertible bonds and derivative financial instruments *(note 26)*	**51,264**	—
Others	**17**	(141)
	51,281	(141)

Note: During the year ended 31 December 2011, the Group recognised government grants totalling RMB6,377,000 (2010: RMB631,000) as other revenue in profit or loss for the support of business development of certain group entities by local government authorities. There are no unfulfilled conditions and other contingencies attached to the receipts of those government grants.

5 Loss before taxation

Loss before taxation is arrived at after (crediting)/charging:

(a) Net finance (income)/costs

	2011	2010
	RMB'000	*RMB'000*
Bank interest income	**(5,544)**	(114)
Interest income on prepayments to suppliers	**(3,900)**	—
Interest on bank borrowings wholly repayable within five years	**2,996**	—
Interest expense on convertible bonds measured at amortised cost *(note 26)*	**4,194**	—
Net exchange (gain)/loss	**(1,246)**	733
	(3,500)	619

5 Loss before taxation *(continued)*

Loss before taxation is arrived at after (crediting)/charging: *(continued)*

(b) Staff costs

	2011	2010
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**13,558**	11,234
Contributions to defined contribution retirement schemes	**1,380**	928
Equity-settled share-based payment expenses *(note 28)*	**8,242**	706
	23,180	12,868

(c) Other items

	2011	2010
	RMB'000	*RMB'000*
Depreciation	**12,351**	7,160
Amortisation		
— lease prepayments	**1,714**	1,714
— intangible assets	**8,769**	9
Impairment losses on trade receivables *(note 20(b))*	**—**	45
Bad debt written off	**4,194**	4,432
Auditors' remuneration		
— audit services	**1,821**	1,485
— other services	**668**	437
Operating lease charges: minimum lease payments		
— office premises in Hong Kong	**680**	710
— leasehold land in PRC	**3,708**	—
Equity-settled share-based payment expenses in respect of the Company's consultants *(note 28)*	**1,475**	12,333
Cost of inventories *(note 19(b))*[#]	**164,060**	140,372

Cost of inventories includes RMB18,952,000 (2010: RMB13,536,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these type of expenses.

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2011	2010
	RMB'000	*RMB'000*
Current tax - PRC Corporate Income Tax		
Provision for the year	**9,202**	—
Under-provision in respect of prior years	**652**	—
	9,854	—
Deferred tax		
Origination and reversal of temporary differences *(note 29(b))*	**(14,008)**	(6,027)
Income tax credit	**(4,154)**	(6,027)

(i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) No provision for Hong Kong Profits Tax has been made as the Group did not earn any profits assessable to Hong Kong Profits Tax for the years ended 31 December 2010 and 2011.

(iii) Pursuant to the Corporate Income Tax Law of the PRC ("PRC Tax Law") effective from 1 January 2008, the Group's subsidiaries in the PRC are subject to Corporate Income Tax ("CIT") at a tax rate of 25% on the assessable profits for the years.

No CIT provision has been made for Yixing Xinxing Zirconium Company Limited ("YXZL") for 2010 and 2011 as YXZL incurred tax losses for both years.

As a production-oriented foreign investment enterprise ("FIE"), Yixing Better Batteries Company Limited ("YBBL") had kicked off its Tax Holiday ("Tax Holiday") under the old PRC Corporate Income Tax regime in 2008. As such, YBBL was exempted from CIT in 2009. The unexpired Tax Holiday enjoyed by FIE established before 16 March 2007 is allowed to continue after implementation of PRC Tax Law until expiry of the Tax Holiday. As such, the applicable CIT rate of YBBL is 12.5% in years 2010 to 2012 and 25% thereafter. No CIT provision has been made for YBBL for 2010 and 2011 as YBBL has sufficient tax losses brought forward to offset the assessable profits for both years.

Binhai Dragon Crystal Chemicals Company Limited ("BHDC") did not have any assessable profits for both 2010 and 2011, and therefore, no CIT provision has been made for BHDC.

6 Income tax in the consolidated income statement *(continued)*

(a) Taxation in the consolidated income statement represents: *(continued)*

(iv) Pursuant to the Income Tax Law in Indonesia, P.T. Asia Prima Resources ("APR") is subject to corporate income tax at progressive rates ranging from 10% - 30%, based on the level of assessable profit earned by the enterprise. No corporate income tax provision has been made as it has no assessable profits for both 2010 and 2011.

(b) Reconciliation between tax credit and accounting loss at applicable tax rates:

	2011	2010
	RMB'000	*RMB'000*
Loss before taxation	**(238,254)**	(151,033)
Notional tax on loss before taxation, calculated at the rates applicable in the tax jurisdictions concerned	**(67,463)**	(32,651)
Tax effect of non-deductible expenses	**58,855**	—
Tax effect on temporary differences and tax losses not recognised	**4,130**	26,632
Tax effect of tax concessions	**(203)**	(369)
Under-provision in respect of prior years	**652**	—
Others	**(125)**	361
Actual tax credit	**(4,154)**	(6,027)

7 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Fees	Salaries, allowances and other benefits	Contributions to retirement scheme	Sub-total	Share-based payments *(note)*	2011 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr Yang Xin Min	—	1,446	4	1,450	564	2,014
Mr Li Fu Ping	—	180	4	184	212	396
Ms Huang Yue Qin	—	358	4	362	212	574
Mr Zhou Quan	—	180	4	184	212	396
Mr Fang Guo Hong	—	—	—	—	6,415	6,415
Non-executive director						
Mr Wang Jia Wei	58	—	—	58	212	270
Independent non-executive directors						
Mr Cheng Faat Ting Gary	83	—	—	83	68	151
Mr Ji Chang Ming	80	—	—	80	68	148
Mr Poon Lai Yin Michael	75	—	—	75	68	143
	296	2,164	16	2,476	8,031	10,507

7 Directors' remuneration *(continued)*

	Fees	Salaries, allowances and other benefits	Contributions to retirement scheme	Sub-total	Share-based payments *(note)*	2010 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr Yang Xin Min	—	1,479	4	1,483	176	1,659
Mr Li Fu Ping	—	180	4	184	66	250
Ms Huang Yue Qin	—	366	4	370	66	436
Mr Zhou Quan	—	180	4	184	66	250
Mr Fang Guo Hong	—	304	—	304	66	370
Independent non-executive directors						
Mr Cheng Faat Ting Gary	84	—	—	84	22	106
Mr Ji Chang Ming	80	—	—	80	22	102
Mr Poon Lai Yin Michael (appointed on 29 January 2010)	70	—	—	70	22	92
Mr Victor Tong (resigned on 29 January 2010)	3	—	—	3	—	3
	237	2,509	16	2,762	506	3,268

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. On 14 June 2011, Mr Fang Guo Hong, the executive director of the Company, waived his remuneration for the period from 1 January 2010 to 14 June 2011, amounting to HK$524,000 (equivalent to RMB434,000). Except for this, there was no other arrangement under which a director waived or agreed to waive any remuneration during the year.

7 Directors' remuneration *(continued)*

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(t) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 28.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2010: four) are also directors whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the other one (2010: one) individual are as follows:

	2011 *RMB'000*	2010 *RMB'000*
Salaries and other emoluments	**809**	824
Contributions to retirement benefit scheme	**10**	10
Share-based payments	**211**	66
	1,030	900

The emoluments of the one (2010: one) individual with the highest emoluments are within the following band:

	2011 *Number of Individuals*	2010 *Number of Individuals*
HK$Nil to HK$1,000,000	**—**	1
HK$1,000,001 to HK$1,500,000	**1**	—

9 Loss attributable to equity shareholders of the Company

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB167,530,000 (2010: loss of RMB21,986,000) which has been dealt with in the financial statements of the Company.

10 Loss per share

(a) Basic loss per share

The calculation of loss per share is based on the loss attributable to equity shareholders of the Company for the year of RMB234,097,000 (2010: loss of RMB144,739,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2011 of 2,401,269,621 (2010: 1,762,021,524).

Weighted average number of ordinary shares:

	2011	2010
	'000	*'000*
Issued ordinary shares at 1 January	**2,070,140**	1,621,940
Effect of shares issued under placement	**—**	139,463
Effect of shares issued as consideration related to acquisition of subsidiaries	**237,287**	—
Effect of shares issued upon conversion of convertible bonds	**78,752**	—
Effect of shares options exercised	**15,091**	619
Weighted average number of ordinary shares at 31 December	**2,401,270**	1,762,022

10 Loss per share *(continued)*

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company of RMB281,167,000 (2010: loss of RMB144,739,000) and the weighted average number of ordinary shares in issue during the year after adjusting for the effect of potential dilutive shares, assuming they were exercised:

(i) Loss attributable to ordinary equity shareholders of the Company (diluted)

	2011	2010
	RMB'000	*RMB'000*
Loss attributable to ordinary equity shareholders	**(234,097)**	(144,739)
After tax effect of effective interest on the liability component of convertible bonds	**4,194**	—
After tax effect of gains recognised on the change in fair value of convertible bonds and derivative financial instruments	**(51,264)**	—
Loss attributable to ordinary equity shareholders (diluted)	**(281,167)**	(144,739)

(ii) Weighted average number of ordinary shares (diluted):

	2011	2010
	'000	*'000*
Weighted average number of ordinary shares	**2,401,270**	1,762,022
Effect of conversion of convertible bonds *(note 26)*	**206,180**	—
Weighted average number of ordinary shares (diluted)	**2,607,450**	1,762,022

11 Segment reporting

The Group manages its businesses by certain and a group of subsidiaries operating in the PRC which are engaged in the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials, rechargeable batteries and storage and wholesale business of petrochemicals. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified five reportable segments, namely, Yixing Xinxing Zirconium Company Limited ("YXZL"), Yixing Better Batteries Company Limited ("YBBL"), Binhai Dragon Crystal Chemicals Company Limited ("BHDC"), PT Asia Prima Resources ("APR") and Muntari Holdings Limited and its subsidiaries (collectively known as "Muntari Group"). No operating segments have been aggregated to form the above reporting segments.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade and other payables attributable to the manufacturing and sales activities of the individual segments and interest-bearing borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit/(loss) is "adjusted profit/(loss) before taxation". To arrive at adjusted profit/(loss) before taxation, the Group's loss before taxation is adjusted for items not specially attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administrative costs. Income tax charge is not allocated to reporting segments.

In addition to receiving segment information concerning adjusted profit/(loss) after taxation, management is provided with segment information concerning revenue (including inter segment sales), net finance costs from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment loss of non-current assets and additions to non-current segment assets used by the respective segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

11 Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

	YXZL		YBBL		BHDC		APR		Muntari Group		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**162,581**	137,706	**17,532**	15,528	**–**	–	**–**	–	**42,731**	–	**222,844**	153,234
Inter-segment revenue	**16,192**	3,116	**–**	–	**24,506**	–	**–**	–	**–**	–	**40,698**	3,116
Reportable segment revenue	**178,773**	140,822	**17,532**	15,528	**24,506**	–	**–**	–	**42,731**	–	**263,542**	156,350
Reportable segment profit/ (loss) (adjusted profit/(loss) before taxation)	**(9,576)**	(96,021)	**1,040**	3,181	**(49,202)**	(34,968)	**(7)**	(541)	**36,680**	–	**(21,065)**	(128,349)
Net finance income/(costs)	**(1,492)**	(644)	**(33)**	4	**(317)**	5	**–**	–	**6,348**	–	**4,506**	(635)
Depreciation and amortisation for the year	**3,641**	8,196	**332**	316	**4,751**	358	**–**	–	**4,191**	–	**12,915**	8,870
Impairment of non-current assets	**15,168**	84,541	**–**	–	**38,592**	32,767	**17**	4	**–**	–	**53,777**	117,312
Reportable segment assets	**396,857**	407,719	**22,665**	21,204	**68,672**	76,438	**–**	–	**677,842**	–	**1,166,036**	505,361
Additions to non-current segment assets during the year	**40,936**	4,567	**22**	185	**9,431**	67,659	**17**	4	**16**	–	**50,422**	72,415
Reportable segment liabilities	**(161,077)**	(162,362)	**(3,163)**	(2,742)	**(162,908)**	(121,373)	**(9)**	(2)	**(594,292)**	–	**(921,449)**	(286,479)

11 Segment reporting *(continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2011 RMB'000	2010 RMB'000
Revenue		
Reportable segment turnover	**263,542**	156,350
Other revenue	**1,011**	—
Elimination of inter-segment revenue	**(40,698)**	(3,116)
Consolidated turnover	**223,855**	153,234
Loss		
Reportable segment loss	**(21,065)**	(128,349)
Change in fair value of convertible bonds and derivative financial instruments	**51,264**	—
Equity-settled share-based payment expenses	**(9,717)**	(13,039)
Impairment of goodwill	**(235,356)**	—
Unallocated head office and corporate expenses	**(23,380)**	(9,645)
	(217,189)	(22,684)
Consolidated loss before taxation	**(238,254)**	(151,033)

11 Segment reporting *(continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(Continued)*

	2011 RMB'000	2010 RMB'000
Assets		
Reportable segment assets	**1,166,036**	505,361
Elimination of inter-segment receivables	**(160,163)**	(121,329)
	1,005,873	384,032
Deferred tax assets	**116,744**	105,213
Fair value adjustments on property, plant and equipment and intangible assets upon acquisition of subsidiaries	**191,231**	—
Goodwill	**20,217**	—
Unallocated head office and corporate assets	**9,429**	121,578
	220,877	121,578
Consolidated total assets	**1,343,494**	610,823
Liabilities		
Reportable segment liabilities	**921,449**	286,479
Elimination of inter-segment payables	**(251,815)**	(205,951)
	669,634	80,528
Deferred tax liabilities	**47,808**	—
Convertible bonds	**35,391**	—
Derivative financial instruments	**17,440**	—
Unallocated head office and corporate liabilities	**2,694**	3,114
	55,525	3,114
Consolidated total liabilities	**772,967**	83,642

12 Property, plant and equipment

	The Group				
	Buildings	**Machinery and equipment**	**Office equipment and fixtures**	**Motor vehicles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 1 January 2010	167,338	296,570	1,051	6,078	471,037
Exchange adjustments	—	—	(10)	—	(10)
Additions	1,503	551	21	2,229	4,304
Transfer from construction in progress *(note 13)*	43,339	109,235	—	—	152,574
At 31 December 2010	212,180	406,356	1,062	8,307	627,905
At 1 January 2011	212,180	406,356	1,062	8,307	627,905
Exchange adjustments	—	—	(10)	—	(10)
Additions	2,854	11,076	2,786	27	16,743
Transfer from construction in progress *(note 13)*	3,015	1,133	—	—	4,148
Acquisition of subsidiaries *(note 34)*	—	112,821	24	169	113,014
At 31 December 2011	218,049	531,386	3,862	8,503	761,800
Accumulated depreciation and impairment losses:					
At 1 January 2010	120,847	224,884	978	5,384	352,093
Exchange adjustments	—	—	(10)	—	(10)
Charge for the year	1,934	4,742	36	448	7,160
Impairment loss *(note (c))*	32,477	83,916	11	—	116,404
Transfer from construction in progress *(note 13)*	41,650	41,263	—	—	82,913
At 31 December 2010	196,908	354,805	1,015	5,832	558,560

12 Property, plant and equipment

	The Group				
	Buildings	**Machinery and equipment**	**Office equipment and fixtures**	**Motor vehicles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	196,908	354,805	1,015	5,832	558,560
Exchange adjustments	—	—	(8)	—	(8)
Charge for the year	872	10,776	45	658	12,351
Impairment loss *(note (c))*	8,495	7,159	439	—	16,093
At 31 December 2011	206,275	372,740	1,491	6,490	586,996
Net book value:					
At 31 December 2011	11,774	158,646	2,371	2,013	174,804
At 31 December 2010	15,272	51,551	47	2,475	69,345

Notes:

(a) All of the Group's buildings and machinery and equipment are located in the PRC and Indonesia.

(b) At 31 December 2011, the Group was still in the process of obtaining the relevant property ownership certificates of certain buildings in the PRC and Indonesia from the relevant government authorities, the carrying value of which amounted to approximately RMB6,467,000 (2010: RMB7,376,000).

12 Property, plant and equipment *(continued)*

Notes: (continued)

(c) During 2009, the Group experienced a significant drop in demand for its zirconium and related products under the prevailing market environment and consequently recorded operating losses. The directors considered that the existence of the above conditions indicated that non-current assets of the Group's operating subsidiaries in the PRC and Indonesia may be impaired. In view of this, the directors prepared a cash flow projection to estimate the recoverable amount of these assets and recognised an impairment loss of RMB342,519,000 against these non-current assets for that year. During 2010, a number of machines were considered obsolete by the Group. As a result, the carrying amount of the machines are fully written off and impairment losses of RMB21,348,000 is recognised.

In addition, the market conditions surrounding the Group's zirconium and related products were more difficult than expected and the Group continued to record operating losses during the years ended 31 December 2010 and 2011. The directors revised the cash flow projection based on the prevailing market information to reassess the recoverable amount of the non-current assets and recognised an additional impairment loss of RMB53,777,000 (2010: RMB95,964,000) for the year.

The impairment losses of non-current assets of the Group charged to profit or loss for the year ended 31 December 2011 of RMB53,777,000 (2010: RMB117,312,000) can be further analysed as follows:

		The Group	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Property, plant and equipment		**16,093**	116,404
Construction in progress	13	**4,651**	163
Intangible assets	15	**—**	13
Long-term prepayments	18	**33,033**	732
Charged to profit or loss		**53,777**	117,312

The estimates of recoverable amount at 31 December 2011 were determined based on a value in use calculation using cash flow projections based on the five-year financial forecast approved by the directors, and a pre-tax discount rate.

12 Property, plant and equipment *(continued)*

Notes: (continued)

(c) *(continued)*

Cash flows beyond the five-year period were extrapolated using a 3% growth rate to cover the remaining useful lives of related non-current assets.

Key assumptions used for the value in use calculation:

—	Sales volume growth rate	10%–15%
—	Gross contribution rate	6%–16%
—	Pre-tax discount rate	12%–14%

The directors determined the growth rate and gross contribution rate based on the expectation for market development.

(d) Fixed assets leased out under operating leases

The Group leases out a number of items of property, plant and equipment under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease after the date at which time all terms are negotiated. Lease payments are usually adjusted every year to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Within 1 year	**15,167**	—
After 1 year but within 5 years	**416**	—
	15,583	—

13 Construction in progress

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**76**	1,779
Additions	**33,690**	68,121
Transfer to property, plant and equipment *(note 12)*	**(4,148)**	(69,661)
Impairment loss *(note 12(c))*	**(4,651)**	(163)
At 31 December	**24,967**	76

Construction in progress as at 31 December 2011 comprises costs incurred on buildings under construction and plant and equipment under installation.

14 Lease prepayments

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Costs:		
At 1 January and 31 December	**81,023**	81,023
Accumulated amortisation and impairment loss:		
At 1 January	**16,630**	14,916
Charge for the year	**1,714**	1,714
At 31 December	**18,344**	16,630
Net book value:		
At 31 December	**62,679**	64,393
Current portion	**(1,597)**	(1,597)
Non-current portion	**61,082**	62,796

Lease prepayments represent cost of land use rights paid to the PRC land bureau and Indonesia land bureau. The Group has been granted land use rights for a period of 50 years.

15 Intangible assets

The Group

	Technical know-how	Operating license	Backlog	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2010 and 31 December 2010	4,345	—	—-	4,345
Accumulated amortisation and impairment losses:				
At 1 January 2010	4,317	—	—	4,317
Charge for the year	9	—	--	9
Impairment loss *(note 12(c))*	13	—	—	13
At 31 December 2010	4,339	—	—	4,339
Net book value:				
At 31 December 2010	6	—	—	6

15 Intangible assets *(continued)*

The Group *(continued)*

	Technical know-how *RMB'000*	Operating license *RMB'000*	Backlog *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2011	4,345	—	—	4,345
Acquisition of subsidiaries *(note 34)*	—	174,924	1,141	176,065
At 31 December 2011	4,345	174,924	1,141	180,410
Accumulated amortisation and impairment losses:				
At 1 January 2011	4,339	—	—	4,339
Charge for the year	3	7,951	815	8,769
At 31 December 2011	4,342	7,951	815	13,108
Net book value:				
At 31 December 2011	3	166,973	326	167,302

Technical know-how mainly represents a production technology in respect of rechargeable batteries acquired from a third party at a cost of RMB3,500,000 in 2003 and is amortised over the estimated useful life of 5 years. Operating license represents the license to operate the wholesale and storage of petrochemicals applied from the PRC government authorities and is amortised over the estimated useful life of 22 years. Backlog represents the operating lease contracts signed with customers in respect of the petrochemical storage business and is amortised over the estimated useful life of 1.4 years. The amortisation charge for the year is included in cost of sales and administrative expenses in the consolidated income statement.

16 Goodwill

	The Group *RMB'000*
Cost:	
At 1 January 2010, 31 December 2010 and 1 January 2011	—
Acquisition of subsidiaries *(note 34)*	255,573
At 31 December 2011	255,573
Accumulated impairment losses:	
At 1 January 2010, 31 December 2010 and 1 January 2011	—
Impairment loss	235,356
At 31 December 2011	235,356
Carrying amount:	
At 31 December 2011	20,217
At 31 December 2010	—

16 Goodwill *(continued)*

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segment as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Muntari Group	**255,573**	—

The Group carried out impairment testing of the goodwill as at 31 December 2011. In assessing the impairment of goodwill, the recoverable amount of the CGU is determined based on value-in-use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 15%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The impairment loss recognised during the year solely relates to Muntari Group, of which the principal activities are the storage and wholesale business of petrochemicals. The cash flow projections for Muntari Group (as the CGU) were adjusted downwards based on the latest market conditions, which reflected a lower market rental rate and lower demand for petrochemical storage facilities in Ningbo area in the PRC. The impairment loss was computed as the shortfall between the recoverable amount of Muntari Group and its carrying amount, including goodwill as at 31 December 2011. Given that the impairment loss was less than the carrying amount of goodwill, all of the impairment loss was allocated against goodwill. As the cash generating unit has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

17 Interest in subsidiaries

	The Company	
	2011	2010
	RMB'000	*RMB'000*
Unlisted shares, at cost	**30,744**	32,047
Less: Impairment loss	**(30,744)**	(17,439)
	—	14,608
Amounts due from subsidiaries *(Note (i))*	**517,575**	254,642
	517,575	269,250

Details of the Company's subsidiaries as at 31 December 2011 are as follows:

Name of Company	Place of incorporation/ establishment	Issued and fully paid up/ registered capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by subsidiaries	Principal activity
Kingweston Technology Limited	British Virgin Islands ("BVI")	US$2,500,000	100%	—	Investment holding in Hong Kong
P.T. Asia Prima Resources ("APR")	Indonesia	US$1,900,000	51%	—	Separation, processing and refining of zircon sand, contracting and management of mining concession and the sale of zircon products
Binhai Dragon Crystal Chemicals Company Limited ("BHDC")*	The PRC	US$12,410,550	—	100%	Research, development, manufacturing and sales of zirconium compounds
Century Dragon Investment Limited ("CDIL")	Hong Kong ("HK")	HK$15,000,000	—	100%	Leasing of the Group's office premises in Hong Kong, provision of administrative services and general trading in Hong Kong

(Expressed in Renminbi unless otherwise indicated)

17 Interest in subsidiaries *(continued)*

Details of the Company's subsidiaries as at 31 December 2011 are as follows: *(continued)*

Name of Company	Place of incorporation/ establishment	Issued and fully paid up/ registered capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by subsidiaries	Principal activity
Yixing Better Batteries Company Limited ("YBBL")*	The PRC	US$4,200,000	—	100%	Research, development, manufacturing and sales of rechargeable batteries
Yixing Xinxing Zirconium Company Limited ("YXZL")*	The PRC	US$13,100,000	—	100%	Research, development, manufacturing and sales of zirconium compounds, electronic materials, electronics ceramics and new energy materials
Kanway Investments Limited ("KW")	BVI	US$50,000	100%	—	Investment holding in Hong Kong
Muntari Holdings Limited ("MH")	BVI	US$50,000	—	100%	Investment holding in Hong Kong
Muntari Investments (HK) Limited ("MIHK")	HK	HK$1	—	100%	Investment holding in the PRC
Ningbo Lianyi Enterprise Management Consultancy Company Limited ("NBLY")*	The PRC	RMB1,500,000	—	100%	Management consulting
Ningbo Bokun Petrochemical Storage Company Limited ("NBBK")	The PRC	RMB50,000,000	—	Note (iii)	Petrochemicals storage and wholesale

* Registered under the laws of the PRC as foreign investment enterprise.

17 Interest in subsidiaries *(continued)*

Notes:

(i) The amounts due from subsidiaries as at 31 December 2010 and 2011 are unsecured, non-interest bearing and repayable on demand.

(ii) BHDC, NBLY, YBBL and YXZL are Foreign Investment Enterprises established pursuant to the law of the PRC. NBLY has an operating period of 20 years expiring on 29 July 2030, YBBL and YXZL have an operating period of 30 years expiring on 4 January 2034 and 6 June 2030 respectively whereas BHDC has an operating period of 50 years expiring on 30 August 2057.

(iii) Pursuant to the exclusive management consultancy service agreement ("the Service Agreement") entered into among NBLY, NBBK and the shareholders of NBBK on 1 July 2010, NBBK has granted a 10-year exclusive right (which can be extended for 10 years each time without any consideration) to NBLY to provide exclusive management consultancy services to NBBK for managing the business of wholesale and storage of petrochemicals in the PRC of NBBK. The Service Agreement provides that without the written consent of NBLY, NBBK shall not accept the same or similar services provided by any third party. To guarantee the performance of the obligations of NBBK and the shareholders of NBBK under the Service Agreement, NBBK and the shareholders of NBBK granted a right to NBLY that, as permissible under the then PRC laws and regulations, NBLY can purchase the entire or partial equity interest in NBBK or assets of NBBK or the assets of NBBK distributed to the shareholders of NBBK upon bankruptcy or liquidation of NBBK.

On 1 July 2010, all the shareholders of NBBK have authorised, through the Power of Attorney, NBLY to act as their exclusive agent and attorney with respect to the matters including but not limited to (i) attending shareholder's meeting of NBBK; (ii) exercising all the shareholder's rights and shareholder's voting rights; and (iii) designating and appointing the directors and other key management members of NBBK. By way of the Service Agreement and the Power of Attorney, NBLY will be entitled to enjoy 100% economic benefit from NBBK.

On 1 July 2010, NBLY, the shareholders of NBBK, and NBBK entered into the Share Charge Agreement, pursuant to which the shareholders of NBBK pledged their respective equity interests in NBBK to guarantee the performance of the obligations of NBBK of the shareholders of NBBK under the Service Agreement.

On 1 July 2010, NBLY, the shareholders of NBBK, and NBBK also entered into the Exclusive Option Agreement pursuant to which (i) the shareholders of NBBK irrevocably granted NBLY or the person designated by NBLY an exclusive right to, at its full discretion, purchase the entire or partial equity interest in NBBK at no consideration or the lowest price at such time as permissible under the then PRC laws; and (ii) NBLY or the person designated by NBLY will receive dividends and other form of economic benefits distributed on the basis of shares held by the shareholders of NBBK.

The company's directors considered NBLY has control over NBBK through the above agreements.

(iv) In late December 2009, the zircon sand processing plant area of APR was sealed off by the local government authority of Indonesia, pending for the investigation of certain mineral supplies being made to the plant by certain suppliers without proper mining license. Based on available facts and circumstances, the directors of the Company were of the view that there was no indication of potential litigation against APR or the Group in respect of this matter at the reporting date. As the Group was uncertain on when APR would resume access to the zircon sand processing plant, the directors of the Company decided to make a full provision for the impairment losses of the assets of APR totalling RMB9,138,000 as at 31 December 2009. As at 31 December 2010, the premises of APR remained sealed off.

On 22 February 2011, Indonesian National Police issued a notice of termination of investigation to APR, stating that the investigation was terminated and no criminal case was resulted from the investigation. As the operation of APR was still under suspension and there was no concrete plan for re-opening of the plant as at 31 December 2011, the Company's directors considered that it was appropriate to maintain the full provision for the impairment losses on the assets of APR.

18 Long-term prepayments

As at 31 December 2011, the Group had made prepayments of RMB26,995,000 (2010: RMB11,053,000), after net of impairment loss of RMB33,033,000 (note 12(c)) (2010: RMB732,000) for the acquisition of land use rights in the PRC and machinery and equipment for the manufacturing plants under development. The corresponding certificates of land use rights are under application at the end of the reporting period.

19 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Raw materials	**8,548**	9,469
Work in progress	**3,473**	3,807
Finished goods	**20,479**	16,315
	32,500	29,591

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**161,479**	140,372
Write down of inventories	**2,581**	—
Cost of inventories	**164,060**	140,372

20 Trade and other receivables and prepayments

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**25,043**	24,541	**—**	—
Less: Allowance for doubtful debts *(note 20(b))*	**(599)**	(599)	**—**	—
	24,444	23,942	**—**	—
Advance payments to suppliers				
— petrochemical suppliers	**328,545**	—	**—**	—
— other suppliers	**4,303**	16,024	**—**	—
Deposits and prepayments	**5,691**	4,928	**—**	—
Dividend receivable	**—**	—	**11,345**	11,826
Other receivables	**16,345**	8,587	**298**	353
	379,328	53,481	**11,643**	12,179

All of the trade and other receivables are expected to be recovered within one year.

20 Trade and other receivables and prepayments *(continued)*

(a) Ageing analysis

An ageing analysis of the trade receivables (net of allowance for doubtful debts) as of the end of reporting period is as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Current	**18,218**	21,116
Less than 3 months past due	**2,635**	2,797
More than 3 months but less than 1 year past due	**3,591**	29
Amounts past due	**6,226**	2,826
	24,444	23,942

Trade receivables are normally due within 30 to 90 days from the date of billing. Further details of the Group's credit policy are set out in note 31(a).

20 Trade and other receivables and prepayments *(continued)*

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 1(l)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
At 1 January	**599**	1,479
Impairment of trade receivables *(note 5(c))*	**—**	45
Uncollectible amounts written off	**—**	(925)
At 31 December	**599**	599

At 31 December 2011, the Group's trade receivables of RMB599,000 (2010: RMB599,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management did not consider it probable that any of the receivables would be recovered. Consequently, specific allowances for doubtful debts of RMB599,000 (2010: RMB599,000) were recognised.

20 Trade and other receivables and prepayments *(continued)*

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**18,218**	21,116
Less than 3 months past due	**2,635**	2,797
More than 3 months but less than 1 year past due	**3,591**	29
	6,226	2,826
	24,444	23,942

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(d) Impairment of other receivables

At 31 December 2011, the Group's other receivables of HK$5,000,000 (equivalent to RMB4,143,000) (2010: RMB Nil) were individually determined to be impaired. Management assessed that the recoverability of the balance was remote and accordingly an impairment loss was recognised.

21 Pledged deposits

These bank deposits have been pledged to banks as security for bills payable of RMB251,450,000 as at 31 December 2011 (2010: RMB Nil) (see note 24).

22 Cash and cash equivalents and fixed deposits held at banks

(a) Cash and cash equivalents and fixed deposits held at banks comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits with banks	**162**	—	**—**	—
Cash at bank and in hand	**66,384**	276,802	**1,377**	118,963
Cash and cash equivalents in the statements of financial position and consolidated cash flow statement	**66,546**	276,802	**1,377**	118,963
Deposits maturing beyond three months when placed	**17,000**	—	**—**	—
	83,546	276,802	**1,377**	118,963

As at 31 December 2011, the Group's cash and cash equivalents and fixed deposits held at banks of RMB73,894,000 (2010: RMB148,600,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

22 Cash and cash equivalents *(continued)*

(b) Reconciliation of loss before taxation to cash generated from/(used in) operations:

	Note	2011 RMB'000	2010 RMB'000
Loss before taxation		**(238,254)**	(151,033)
Adjustments for:			
Depreciation	5(c)	**12,351**	7,160
Amortisation of lease prepayments	5(c)	**1,714**	1,714
Amortisation of intangible assets	5(c)	**8,769**	9
Bank interest income	5(a)	**(5,544)**	(114)
Interest income on prepayment to suppliers	5(a)	**(3,900)**	—
Interest expense	5(a)	**2,996**	—
Interest expense on convertible bonds measured at amortised cost	5(a)	**4,194**	—
Equity-settled share-based payment expenses	5(b)	**8,242**	706
Equity-settled share-based payment expenses to third party consultants	5(c)	**1,475**	12,333
Impairment losses of trade receivables	5(c)	**—**	45
Bad debt written off	5(c)	**4,194**	4,432
Impairment of non-current assets	12(c)	**53,777**	117,312
Impairment of goodwill	16	**235,356**	—
Change in fair value of convertible bonds and derivative financial instruments	4	**(51,264)**	—
Foreign exchange (gain)/loss		**(39)**	2,365

22 Cash and cash equivalents *(continued)*

(b) Reconciliation of loss before taxation to cash generated from/(used in) operations: *(continued)*

	Note	**2011** **RMB'000**	2010 *RMB'000*
Changes in working capital:			
(Increase)/decrease in inventories		**(2,909)**	710
Increase in trade and other receivables and prepayments		**(596)**	(26,809)
Increase in amounts due from related parties		**(2,099)**	(799)
(Decrease)/increase in trade and other payables		**(61,763)**	918
Decrease in pledged deposits		**48,550**	—
Increase/(decrease) in amounts due to related parties		**16,598**	(1,211)
Cash generated from/(used in) operations		**31,848**	(32,262)

23 Amounts due (to)/from related parties

The amounts due (to)/from related parties are unsecured, interest-free and repayable on demand.

24 Trade and other payables

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**5,774**	9,302	**—**	—
Bills payable	**551,450**	—	**—**	—
Receipts in advance from customers	**1,195**	575	**—**	—
Payables for construction costs and acquisition of property, plant and equipment	**27,391**	27,322	**—**	—
Other payables and accruals	**26,883**	25,284	**1,850**	2,264
	612,693	62,483	**1,850**	2,264

All of the trade and other payables are expected to be settled within one year. Included in trade and other payables are trade payables and bills payable with the following ageing analysis as of the end of the reporting period:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Within 3 months of invoice date	**4,470**	6,287
3 months to 6 months after invoice date	**551,726**	638
6 months to 1 year after invoice date	**289**	562
Over 1 year of invoice date	**739**	1,815
	557,224	9,302

25 Interest-bearing bank borrowings

At 31 December 2011, short term bank loan of RMB20,000,000 (2010: Nil) is unsecured and bears interest at 7.54% per annum and is repayable within one year.

26 Convertible bonds

On 6 January 2011, the Company issued 2 tranches, Tranche 1 and 2, of convertible bonds at 100% of the principal amount of HK$65,000,000 for each tranche (totalling of HK$130,000,000), as part of the consideration for the acquisition of Muntari Group (see note 34). The convertible bonds are interest-free and unsecured.

The rights of the convertible bond holders to convert the convertible bonds into ordinary shares are as follows:

— Conversion rights regarding Tranche 1 of convertible bonds are exercisable at any time after 15 days from the date of the board meeting for approving the audited financial statements of NBLY and NBBK, both are group entities of Muntari Group, for the financial year ended 31 December 2010 up to 10 business days prior to its maturity date on 6 January 2016.

— Conversion rights regarding Tranche 2 of convertible bonds are exercisable at any time after 15 days from the date of the board meeting for approving the audited financial statements of NBLY and NBBK for the financial year ended 31 December 2011 up to 10 business days prior to its maturity date on 6 January 2016.

— If a convertible bond holder exercises its conversion rights, the Company is required to deliver ordinary shares at a conversion price of HK$0.45 per share.

Pursuant to the Share Transfer Agreement signed on 4 November 2010, the amount of convertible bonds is subject to adjustment in the event that the vendor regarding the acquisition of Muntari Group fails to meet the terms set out in the Agreement (see note 34).

The convertible bond holders are not entitled to redeem the convertible bonds before its maturity date. On the other hand, the Company shall have the right to redeem all, but not some only, of the convertible bonds outstanding at an amount equivalent to the principal amount of the convertible bonds in its sole and absolute discretion at any time after 30 months of the issue date of the convertible bonds.

The convertible bonds of either tranche, in respect of which conversion rights have not been exercised, will be redeemed at face value on the maturity date.

On 16 June 2011, Tranche 1 of convertible bonds with principal amount of HK$65,000,000 was converted into 144,444,444 ordinary shares of the Company.

26 Convertible bonds *(continued)*

The movement of the convertible bonds for the year is set out below:

	The Group and the Company		
	Liability component	**Derivative component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2010, 31 December 2010 and 1 January 2011	—	—	—
Issue of convertible bonds, net of direct transaction costs	63,390	130,610	194,000
Interest charge for the year *(note 5(a))*	4,194	—	4,194
Change in fair value *(note 4)*	5,438	(56,702)	(51,264)
Conversion into ordinary shares of the Company	(35,253)	(52,725)	(87,978)
Foreign currency translation difference	(2,378)	(3,743)	(6,121)
At 31 December 2011	35,391	17,440	52,831

27 Employee retirement benefits

Defined contribution retirement schemes

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries now comprising the Group participate in a defined contribution retirement benefit scheme (the "retirement scheme") organised by the PRC provincial government authority whereby the Group is required to make contributions to the retirement scheme. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with the retirement scheme beyond the annual contributions described above.

28 Equity-settled share-based transactions

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the "Old Scheme") was approved and adopted and, the board of directors may, at its discretion, grant options to any director (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid). Pursuant to the resolution passed by the shareholders of the Company in the Annual General Meeting held on 27 May 2011, the Old Scheme was terminated such that no further options could thereafter be offered under the Old Scheme but in all other respects and provisions of the Old Scheme shall remain in full force and effect, while a new Share Option Scheme (the "New Scheme") was approved and adopted and, the Board may, at its discretion, grant options to the eligible persons as defined in the New Scheme. The New Scheme will expire on 27 May 2021.

(Expressed in Renminbi unless otherwise indicated)

28 Equity-settled share-based transactions *(continued)*

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of options
Options granted to executive directors:			
— on 15 August 2008	1,600,000	Immediate	5 years
— on 31 May 2010	4,000,000	Immediate	5 years
— on 14 June 2011	25,880,000	Immediate	2 - 5 years
Options granted to non-executive director:			
— on 14 June 2011	600,000	Immediate	5 years
Options granted to independent non-executive directors:			
— on 15 August 2008	400,000	Immediate	5 years
— on 1 December 2008	200,000	Immediate	5 years
— on 31 May 2010	600,000	Immediate	5 years
— on 14 June 2011	600,000	Immediate	5 years
Options granted to employees:			
— on 31 May 2010	1,800,000	Immediate	5 years
— on 14 June 2011	600,000	Immediate	5 years
Options granted to third-party consultants:			
— on 15 August 2008	600,000	Immediate	5 years
— on 3 December 2010	51,000,000	Immediate	2 years
— on 21 July 2011	5,000,000	Immediate	2 years
	92,880,000		

28 Equity-settled share-based transactions *(continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2011			2010		
		Weighted average exercise price	**Number of options**		Weighted average exercise price	Number of options
			'000			*'000*
Outstanding at the beginning of the year	HK$	**0.67**	**51,800**	HK$	0.32	2,800
Granted during the year	HK$	**0.82**	**32,680**	HK$	0.63	57,400
Exercised during the year	HK$	**0.68**	**(17,000)**	HK$	0.33	(8,200)
Forfeited during the year		**N/A**	**—**	HK$	0.67	(200)
Outstanding at the end of the year	HK$	**0.75**	**67,480**	HK$	0.67	51,800
Exercisable at the end of the year	HK$	**0.75**	**67,480**	HK$	0.67	51,800

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.34 (2010: HK$0.93).

The options outstanding at 31 December 2011 had an exercise price which ranged from HK$0.261 to HK$0.86 (2010: HK$0.261 to HK$0.68) and a weighted average remaining contractual life of 1 year (2010: 2 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

28 Equity-settled share-based transactions *(continued)*

(c) Fair value of share options and assumptions *(continued)*

	Options granted on 21 July 2011	Options granted on 14 June 2011	Options granted on 3 December 2010	Options granted on 31 May 2010
Fair value of share options and assumptions				
Fair value at measurement date	**HK$0.3559**	**HK$0.3428–HK$0.4237**	HK$0.2831	HK$0.1263
Share price	**HK$0.860**	**HK$0.770**	HK$0.680	HK$0.250
Exercise price	**HK$0.860**	**HK$0.818**	HK$0.680	HK$0.261
Expected volatility	**88%**	**80%–90%**	90%	77%
Option life	**5 years**	**2 to 5 years**	2 years	5 years
Expected dividends	**0%**	**0%**	1.77%	2.80%
Risk-free interest rate (based on Exchange Fund Notes)	**0.251%**	**0.351%–1.347%**	0.631%	1.614%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted without condition and vested immediately.

29 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	The Group 2011 *RMB'000*	2010 *RMB'000*
Provision for PRC Corporate Income Tax for the year	**9,202**	—
Provisional Profits Tax paid	**(7,976)**	—
	1,226	—
Balance of PRC income tax relating to prior years	**20,289**	19,637
	21,515	19,637

29 Income tax in the consolidated statement of financial position *(continued)*

(b) Deferred tax assets recognised:

The nature of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Provisions	Future benefit of tax losses	Fair value adjustments on property, plant and equipment and intangible assets upon acquisition of subsidiaries	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:				
At 1 January 2010	87,678	11,508	—	99,186
Credited/(charged) to profit or loss *(note 6(a))*	14,535	(8,508)	—	6,027
At 31 December 2010	102,213	3,000	—	105,213
At 1 January 2011	102,213	3,000	—	105,213
Acquisition of subsidiaries *(note 34)*	—	—	(50,285)	(50,285)
Credited to profit or loss *(note 6(a))*	10,610	921	2,477	14,008
At 31 December 2011	112,823	3,921	(47,808)	68,936

29 Income tax in the consolidated statement of financial position *(continued)*

(b) Deferred tax assets recognised: *(continued)*

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Deferred tax assets recognised on the statement of financial position	**116,744**	105,213
Deferred tax liabilities recognised on the statement of financial position	**(47,808)**	—
	68,936	105,213

The Group has recognised deferred tax assets as at 31 December 2011 in respect of cumulative tax losses of RMB15,712,000 (2010: RMB12,896,000) arising from the subsidiaries in the PRC as the directors are of the opinion that future taxable profits against which the losses can be utilised will be available. The tax losses of those subsidiaries will expire in five years.

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(a), the Group has not recognised deferred tax assets as at 31 December 2011 in respect of cumulative tax losses of RMB89,355,000 (2010: RMB77,142,000) arising from the subsidiaries in Hong Kong, the PRC and Indonesia, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses of the subsidiary in Hong Kong do not expire under current tax legislation while those of the subsidiaries in the PRC and Indonesia will expire in five years.

30 Capital, reserves and dividends

(a) Movements in components in equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital *(note (b))* *RMB'000*	Share premium *(note (d))* *RMB'000*	Capital reserve *(note (d))* *RMB'000*	Exchange reserve *(note (d))* *RMB'000*	Amount receivable in respect of consideration shares issued to the vendor *(note 35)* *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2010	82,598	289,360	275	(47,376)	—	(53,100)	271,757
Loss for the year	—	—	—	—	—	(21,986)	(21,986)
Other comprehensive income	—	—	—	(13,097)	—	—	(13,097)
Total comprehensive income for the year	—	—	—	(13,097)	—	(21,986)	(35,083)
Equity-settled share-based transactions	—	—	13,039	—	—	—	13,039
Shares issued under placement, net of issuing costs	18,902	124,866	—	—	—	—	143,768
Shares issued under share option scheme	350	2,476	(914)	—	—	—	1,912
At 31 December 2010	101,850	416,702	12,400	(60,473)	—	(75,086)	395,393

30 Capital, reserves and dividends *(continued)*

(a) Movements in components in equity *(continued)*

	Share capital *(note (b))* RMB'000	Share premium *(note (d))* RMB'000	Capital reserve *(note (d))* RMB'000	Exchange reserve *(note (d))* RMB'000	Amount receivable in respect of consideration shares issued to the vendor *(note 35)* RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	101,850	416,702	12,400	(60,473)	—	(75,086)	395,393
Loss for the year	—	—	—	—	—	(167,530)	(167,530)
Other comprehensive income	—	—	—	(27,785)	—	—	(27,785)
Total comprehensive income for the year	—	—	—	(27,785)	—	(167,530)	(195,315)
Equity-settled share-based transactions	—	—	9,717	—	—	—	9,717
Issue of consideration shares in relation to acquisition of Muntari Holdings Limited *(note 34)*	9,464	157,107	—	—	—	—	166,571
Issue and anticipated cancellation of consideration shares in relation to acquisition of Haney Holdings Limited *(note 35)*	5,291	77,984	—	—	(83,275)	—	—
Shares issued upon conversion of convertible bonds	6,008	81,970	—	—	—	—	87,978
Shares issued under share option scheme	719	13,166	(4,111)	—	—	—	9,774
At 31 December 2011	123,332	746,929	18,006	(88,258)	(83,275)	(242,616)	474,118

30 Capital, reserves and dividends *(continued)*

(b) Authorised and issued share capital

	Number of shares	Nominal value of ordinary shares
		HK$'000
Authorised:		
Ordinary shares of HK$0.05 each at 1 January 2010	4,000,000,000	200,000
Increase in authorised capital	4,000,000,000	200,000
Ordinary shares of HK$0.05 each at 31 December 2010, 1 January 2011 and 31 December 2011	8,000,000,000	400,000

	Note	No. of shares	Nominal value of ordinary shares	
			HK$'000	*RMB'000*
Issued and fully paid:				
1 January 2010		1,621,939,880	81,097	82,598
Share placing and subscription on 29 January 2010	(c)(i)	100,000,000	5,000	4,376
Share placing and subscription on 27 October 2010	(c)(ii)	221,000,000	11,050	9,450
Share placing and subscription on 10 December 2010	(c)(iii)	119,000,000	5,950	5,076
Shares issued under share option scheme	(c)(iv)	8,200,000	410	350
At 31 December 2010		2,070,139,880	103,507	101,850

30 Capital, reserves and dividends *(continued)*

(b) Authorised and issued share capital *(continued)*

	Note	No. of shares	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Issued and fully paid: *(continued)*				
1 January 2011		2,070,139,880	103,507	101,850
Issue of consideration shares in relation to acquisition of subsidiaries	(c)(vi)	351,828,321	17,591	14,755
Shares issued upon conversion of convertible bonds	(c)(vii)	144,444,444	7,222	6,008
Shares issued under share option scheme	(c)(viii)	17,000,000	850	719
At 31 December 2011		2,583,412,645	129,170	123,332

(c) Issue of shares

(i) On 29 January 2010, the Company completed the placement of 100,000,000 ordinary shares pursuant to the terms of an agency agreement signed between the Company and one agent. The placing price is HK$0.495 per share.

Net proceeds from such issue amounting to HK$38,868,000 (equivalent to RMB34,020,000) after offsetting issuance expenses of RMB9,306,000, of which RMB4,376,000 was credited to share capital and the balance of RMB29,644,000 was credited to the share premium account.

(ii) On 27 October 2010, the Company completed the placement of 221,000,000 ordinary shares pursuant to the terms of an agency agreement signed between the Company and one agent. The placing price is HK$0.324 per share.

Net proceeds from such issue amounting to HK$70,305,000 (equivalent to RMB60,127,000) after offsetting issuance expenses of RMB1,111,000, of which RMB9,450,000 was credited to share capital and the balance of RMB50,677,000 was credited to the share premium account.

(Expressed in Renminbi unless otherwise indicated)

30 Capital, reserves and dividends *(continued)*

(c) Issue of shares *(continued)*

(iii) On 10 December 2010, the Company completed the placement of 119,000,000 ordinary shares pursuant to the terms of an agency agreement signed between the Company and one agent. The placing price is HK$0.498 per share.

Net proceeds from such issue amounting to HK$58,168,000 (equivalent to RMB49,621,000) after offsetting issuance expenses of RMB933,000, of which RMB5,076,000 was credited to share capital and the balance of RMB44,545,000 was credited to the share premium account.

(iv) During the year ended 31 December 2010, options were exercised to subscribe for 8,200,000 ordinary shares in the Company at a consideration of RMB1,912,000 of which RMB350,000 was credited to share capital and the balance of RMB1,562,000 was credited to the share premium account. RMB914,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(t).

(v) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	**Exercise price**	**2011** ***Number of options***	2010 *Number of options*
15 August 2008 to 14 August 2013	HK$0.330	**600,000**	600,000
31 May 2010 to 30 May 2015	HK$0.261	**200,000**	200,000
3 December 2010 to 2 December 2012	HK$0.680	**34,000,000**	51,000,000
14 June 2011 to 13 June 2013	HK$0.818	**22,480,000**	—
14 June 2011 to 13 June 2016	HK$0.818	**5,200,000**	—
21 July 2011 to 20 July 2013	HK$0.860	**5,000,000**	—
		67,480,000	51,800,000

30 Capital, reserves and dividends *(continued)*

(c) Issue of shares *(continued)*

(vi) As part of consideration equivalent to RMB166,571,000 for the acquisition of Muntari Holdings Limited (see note 34), the Company issued 222,222,222 ordinary shares to shareholders of Muntari Holdings Limited in exchange for the entire issued share capital of Muntari Holdings Limited, of which RMB9,464,000 was credited to share capital and the balance of RMB157,107,000 was credited to the share premium account.

In addition, as part consideration equivalent to RMB83,275,000 for the acquisition of Haney Holdings Limited (see note 35), the Company issued 129,606,099 ordinary shares to shareholders of Haney Holdings Limited in exchange for the entire issued share capital of Haney Holdings Limited, of which RMB5,291,000 was credited to share capital and the balance of RMB77,984,000 was credited to the share premium account.

(vii) On 16 June 2011, 144,444,444 ordinary shares of the Company were issued upon the conversion of convertible bonds with total carrying values of RMB87,978,000 made up as follows:

	The Group 2011 ***RMB'000***
Liability component	35,253
Derivative component	52,725
	87,978

(viii) During the year ended 31 December 2011, options were exercised to subscribe for 17,000,000 ordinary shares in the Company at a consideration of RMB9,774,000 of which RMB719,000 was credited to share capital and the balance of RMB9,055,000 was credited to the share premium account. RMB4,111,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(t).

30 Capital, reserves and dividends *(continued)*

(d) Nature and purpose of reserves of the Company and the Group

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of the business.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 1(x).

(iii) Merger reserve

Merger reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company in exchange for the nominal amount of the share capital of its subsidiaries at the date when those subsidiaries became members of the Group.

(iv) Capital reserve

Capital reserve represents the fair value of the actual or estimated number of unexercised share options granted by the Company recognised in accordance with the accounting policy adopted for share-based payments in note 1(t).

30 Capital, reserves and dividends *(continued)*

(d) Nature and purpose of reserves of the Company and the Group *(continued)*

(v) Statutory reserves

Transfers from retained profits to statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors. Statutory reserves are non-distributable other than on liquidation. The transfer to the statutory reserves must be made before distribution of a dividend to shareholders.

(vi) Distributable reserves

The aggregate amount of distributable reserves of the Company at 31 December 2011 was RMB504,313,000 (2010: RMB341,616,000).

(e) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's capital structure is regularly reviewed and managed in accordance with the capital management practices of the Group and in light of changes in economic conditions affecting the Company or the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Company.

Consistent with the industry practice, the Company's capital structure is monitored on the basis of a debt-to-capital ratio. For this purpose, net debt is defined as interest-bearing borrowings, convertible bonds, trade and other payables and amounts due to related parties plus unaccrued proposed dividends of the Group. Total capital is referred as shareholders' equity in the consolidated statement of financial position.

During 2011, the Group's strategy, which was unchanged from 2010, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders or issue new shares. The net debt-to-equity ratio as at 31 December 2011 and 2010 are 123.3% and 12.1%, respectively.

31 Financial risk management and fair values

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade and other receivables

In respect of the petrochemical business which was newly acquired during the year, the Group is exposed to credit risk from both the suppliers of the petrochemicals and the end-customers. The credit risk exposure to the suppliers arises when the Group makes advance payments to the suppliers in the form of bank bills to secure the petrochemicals needed to fulfill an order from an end-customer. The credit exposure to the supplier ends when the supplier delivers the goods to the end-customer. From this time until settlement of the trade receivables, the Group is exposed to the credit risk of the end-customer. In these arrangements, the Group acts as an agent and therefore it does not recognize the gross amount of sales and purchase in its profit or loss, but instead recognizes the margin as commission income. Advance payments are made to independent suppliers with high reputation in the industry and good track record with the Group. At the same time, management has a credit policy in place to manage the credit risk from customers through monitoring their settlement within the credit period such that the obligations under the bank bills issued to the suppliers would be met when they fall due.

In respect of the Group's business other than the petrochemical business, the Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored as an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. The Group normally grants a credit period of 60 days to domestic customers in the PRC and 30 to 90 days to overseas customers. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted.

At the end of the reporting period, the Group has a certain concentration of credit risk as 33% (2010: 20%) and 75% (2010: 67%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors as at 31 December 2011 respectively. The Group does not hold any collateral over these balances.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

(ii) Deposits with bank

The Group limits its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating or other criteria. Management does not expect any counterparty to fail to meet its obligations.

As at 31 December 2011, the Group has a certain concentration of credit risk as 82% (2010: 51.9%) of total cash and cash equivalents were deposited at one of the four largest financial institutions in the PRC with high credit rating.

31 Financial risk management and fair values *(continued)*

(b) 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 policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the reporting 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 or, if floating, based on rates current at the end of the reporting period) and the earliest date the Company can be required to pay:

The Group

	2011				2010		
	Within 1 year or on demand	**More than 2 years but less than 5 years**	**Total contractual undiscounted cashflow**	**Carrying amount at 31 December**	Within 1 year or on demand	Total contractual undiscounted cashflow	Carrying amount at 31 December
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Convertible bonds	**—**	**52,674**	**52,674**	**35,391**	—	—	—
Trade and other payables	**612,693**	**—**	**612,693**	**612,693**	62,483	62,483	62,483
Interest-bearing bank borrowings	**21,508**	**—**	**21,508**	**20,000**	—	—	—
Amounts due to related parties	**18,720**	**—**	**18,720**	**18,120**	1,522	1,522	1,522
	652,921	**52,674**	**705,595**	**686,204**	64,005	64,005	64,005

The Company

	2011				2010		
	Within 1 year or on demand	**More than 2 years but less than 5 years**	**Total contractual undiscounted cashflow**	**Carrying amount at 31 December**	Within 1 year or on demand	Total contractual undiscounted cashflow	Carrying amount at 31 December
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Convertible bonds	**—**	**52,674**	**52,674**	**35,391**	—	—	—
Other payables	**1,850**	**—**	**1,850**	**1,850**	2,264	2,264	2,264
Amounts due to related parties	**1,796**	**—**	**1,796**	**1,796**	2,735	2,735	2,735
	3,646	**52,674**	**56,320**	**39,037**	4,999	4,999	4,999

31 Financial risk management and fair values *(continued)*

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from cash at bank interest-bearing bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not use derivative financial instruments to hedge its debts obligations. The following table details the interest rate profile of the Group's and the Company's interest-earning financial assets and interest-bearing financial liabilities at the reporting date:

The Group

	2011		2010	
	Effective interest rate		Effective interest rate	
	%	***RMB'000***	%	*RMB'000*
Variable rate instruments:				
Cash and cash equivalents	**0.27**	**66,546**	0.19	276,802
Less: Interest-bearing bank borrowings	**7.54**	**(20,000)**	—	—
Total		**46,546**		276,802

31 Financial risk management and fair values *(continued)*

(c) Interest rate risk *(continued)*

(i) Interest rate profile *(continued)*

The Company

	2011		2010	
	Effective interest rate		Effective interest rate	
	%	***RMB'000***	%	*RMB'000*
Variable rate instruments:				
Cash and cash equivalents	**0.00**	**1,377**	0.00	118,963

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss for the year and the Group's accumulated losses by approximately RMB646,000 (2010: decrease/increase the Group's loss for the year and the Group's accumulated losses by approximately RMB2,378,000). Other components of consolidated equity would not be affected by change in interest rates (2010: Nil).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and accumulated losses) that would arise assuming that the change in interest rates had occurred at the reporting date and had been applied remeasure those financial instruments held by the Group which expose the Group to interest rate risk at the reporting date. The analysis is performed on the same basis for 2010.

31 Financial risk management and fair values *(continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operation to which they relate. The currencies giving rise to this risk are primarily United States dollars and Canadian dollars.

In respect of trade receivables and payables and cash balances held in currencies other than the functional currency of the operation to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's exposure at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the operation to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi ("RMB") translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside the PRC into the Group's presentation currency are excluded.

	The Group *(expressed in RMB'000)*			
	2011		2010	
	Canadian Dollars	**United States Dollars**	Canadian Dollars	United States Dollars
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Cash and cash equivalents	**23**	**7,899**	233	558
Trade and other receivables and prepayments	**—**	**756**	65	7,635
Trade and other payables	**—**	**(332)**	(94)	(332)
Overall net exposure	**23**	**8,323**	204	7,861

The Company is not exposed to significant currency risks as most of the transactions are denominated in its functional currency.

31 Financial risk management and fair values *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after taxation for the year (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the reporting date had changed at that date, assuming all other risk variables remained constant. Other components of equity would not be affected by change in foreign exchange rates.

	2011			2010		
	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in loss after taxation *RMB'000*	(Decrease)/ increase in accumulated losses *RMB'000*	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in loss after taxation *RMB'000*	(Decrease)/ increase in accumulated losses *RMB'000*
United States dollars	**5%**	**(414)**	**(414)**	5%	(298)	(298)
	(5)%	**414**	**414**	(5)%	298	298
Canadian dollars	**5%**	**(1)**	**(1)**	5%	(10)	(10)
	(5)%	**1**	**1**	(5)%	10	10

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the reporting date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial assets/liabilities held by the Group which expose the Group to foreign currency risk at the reporting date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2010.

31 Financial risk management and fair values *(continued)*

(e) Commodity price risk

The major raw materials used in the production of the Group's products included zircon sand, while the Group is also engaged in the trading of of petrochemicals. The Group is exposed to fluctuations in the prices of these commodities as influenced by global and regional market conditions. Fluctuations in the prices of commodities could adversely affect the Group's financial results. For raw materials, the Group managed its commodity risk by vertically integrating its production through setting up a production plant in processing zircon sand for the Group's production. The Group has not entered into any commodity derivative instrument to hedge the potential commodity price fluctuations.

(f) Fair values

(i) Financial instruments carried at fair value

The carrying value of financial instruments included in derivative financial instruments (in respect of the conversion and redemption option embedded in convertible bonds) measured at fair value at the end of the reporting period falls within Level 3 across the three levels of the fair value hierarchy defined in IFRS 7, Financial instruments: Disclosures. The fair value of each financial instrument is categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

— Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

— Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

— Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

During the year ended 31 December 2011, there were no transfers between instruments in Level 1 and Level 2.

(Expressed in Renminbi unless otherwise indicated)

31 Financial risk management and fair values *(continued)*

(f) Fair values *(continued)*

(i) Financial instruments carried at fair value *(continued)*

The movement during the year in the balance of Level 3 fair value measurements is presented in note 26.

The gains or losses arising from the remeasurement of the conversion and redemption options embedded in the convertible bonds are presented in "Other net income" in the consolidated income statement.

(ii) Fair value of financial instruments carried at other than fair value

As stated in note 23, the balances with related parties are interest-free and repayable on demand. Given these terms, it is not meaningful to disclose their fair values. All other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010.

(g) Estimation of fair value

The following summarises the major methods and assumptions used in estimating the fair values of derivative financial instruments. The estimate of the fair value of the conversion and redemption options embedded in the convertible bonds is measured using a binomial model.

Fair value of conversion and redemption options and assumptions	**2011**
Fair value at measurement date	HK$21,521,000
Exercise price	HK$0.345
Expected volatility	84%
Option life	4 years
Expected dividends	0%
Risk-free interest rate	0.77%

Where a binomial model is used, inputs are based on market related data at the end of the reporting period.

32 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2011 not provided for in the financial statements are as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Contracted for	**13,427**	7,023

(b) At 31 December 2011, the Group had a commitment of US$561,000 (2010: US$561,000) equivalent to RMB3,535,000 (2010: RMB3,715,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

(c) Operating leases

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company	
	2011	2010
	RMB'000	*RMB'000*
Within 1 year	**2,591**	559
After 1 year but within 5 years	**8,307**	392
After 5 years	**32,499**	—
	43,397	951

The Group leases a property and a parcel of land under operating lease with fixed rental. The lease runs for an initial period of 3 to 25 years, with an option to renew when all terms are renegotiated.

33 Material related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions.

(a) Amounts due from/(to) related parties

	Note	**2011** **RMB'000**	2010 RMB'000
Amounts due from related parties:			
— Directors of the Company	(i)	**2,962**	863
Amounts due to related parties:			
— Shanghai Chuangsheng Petrochemical Industry Co., Ltd	(iii)	**(15,000)**	—
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (ii)	**(1,138)**	(1,138)
— Directors of the Company	(i)	**(1,982)**	(384)
		(18,120)	(1,522)

Notes:

(i) The balances at 31 December 2010 and 2011 are unsecured, non-interest bearing and repayable on demand.

(ii) The party is related to the extent that Mr Yang Xin Min, a major shareholder and director of the Company, who is also the sole owner of the related company.

(iii) The party is related to the extent that Ms Li Hui Qiang, is a key management personnel of NBLY and NBBK, who is the legal representative of the related company. The balance at 31 December 2011 is unsecured, bears interest at 8% per annum and repayable within six months.

33 Material related party transactions *(continued)*

(b) Amount due from a director

Amount due from a director of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Cash advance made by the Company:

Name of borrower	Mr Yang Xin Min
Position	Director
Term of the cash advance	
— duration and repayment terms	Repayable on demand
— cash advance amount	RMB2,962,000
— Interest rate	Nil
— security	None
Balance of the cash advance	
— at 1 January 2010, 31 December 2010 and 1 January 2011	RMB863,000
— at 31 December 2011	RMB2,962,000
Maximum balance outstanding	
— during 2011	RMB2,962,000
— during 2010	RMB863,000

There was no amount due but unpaid, nor any provision made against the cash advance at 31 December 2010 and 2011.

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2011 *RMB'000*	2010 *RMB'000*
Short-term employee benefits	**11,537**	4,168

Total remuneration is included in "staff costs" (note 5(b)).

34 Acquisition of subsidiaries

Acquisition of Muntari Holdings Limited

On 6 January 2011, the Company acquired the entire equity interest in MH. MH is an investment holding company and its principal assets are its 100% equity interest in NBLY. Through certain service agreements and other contractual arrangements, NBLY is entitled to 100% economic benefit of NBBK. NBBK and NBLY are principally engaged in the provision of agency services on trading of petrochemicals and storage services of petrochemicals in the PRC (the "petrochemical business"). The acquisition is expected to improve the prospect of the Group by diversification into the petrochemical business.

The petrochemical business contributed a turnover of RMB42,731,000 and profits of RMB19,498,000 to the Group for the period from 6 January 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, the Group's turnover would have been approximately RMB224,448,000, and loss for the year would have been approximately RMB233,829,000.

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on acquisition *RMB'000*
Property, plant and equipment	87,942	25,072	113,014
Intangible assets	—	176,065	176,065
Trade and other receivables	329,251	—	329,251
Pledged deposits	300,000	—	300,000
Cash and cash equivalents	7,975	—	7,975
Identifiable assets acquired			926,305
Trade and other payables	(611,930)	—	(611,930)
Bank loans	(49,000)	—	(49,000)
Current taxation	(7,877)	—	(7,877)
Deferred tax liabilities	—	(50,285)	(50,285)
Identifiable liabilities assumed			(719,092)
Fair value of net identifiable assets			207,213

34 Acquisition of subsidiaries *(continued)*

Acquisition of Muntari Holdings Limited *(continued)*

Details of assets acquired and liabilities assumed as at the acquisition date were as follows: *(continued)*

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on acquisition *RMB'000*
Satisfied by:			
Issue of consideration shares *(note(i))*			166,571
Issue of convertible bonds *(note (ii))*			194,000
Cash			102,215
Consideration			462,786
Goodwill *(note 16)*			255,573
Net cash outflow on acquisition:			
Purchase consideration settled in cash			102,215
Cash and cash equivalents acquired			(7,975)
Net cash outflow on acquisition			94,240

Notes:

(i) The fair value of the shares issued was based on the closing share price on 6 January 2011 of HK$0.88 per share.

(ii) Pursuant to the Share Transfer Agreement signed on 4 November 2010 between the Company, KW, Sinobright Petroleum Management Holding Co. Limited ("Sinobright") and Mr. Wang Jiawei, Sinobright guaranteed that the aggregate audited net profit after taxation and non-controlling interests but before extraordinary items of NBBK and NBLY as adjusted in accordance with the Agreement shall not be less than HK$30 million ("2010 Consideration Adjustment") for the financial year ended 31 December 2010 and HK$33 million ("2011 Consideration Adjustment") for the financial year ending 31 December 2011, respectively.

In the event that NBBK and NBLY fail to meet the 2010 Consideration Adjustment or 2011 Consideration Adjustment, Sinobright shall indemnify the Company by deducting the compensation amount from the convertible bonds in accordance with the Agreement.

The directors of the Company confirmed that all Consideration Adjustments were met as at 31 December 2011.

34 Acquisition of subsidiaries *(continued)*

Acquisition of Muntari Holdings Limited *(continued)*

Goodwill represents the premium paid over the fair value of the identifiable net assets acquired by the Group in the acquisition. The goodwill mainly arose from the directors' decision to acquire the business for more than the aggregate of the fair value of its identifiable net assets, which was mainly attributable to the superior geographical location of the petrochemicals storage facilities of NBBK, its good and stable business relationship with the major petrochemicals suppliers in the PRC, and its experienced management team. In addition, at completion date (6 January 2011), the Company's share price had increased by 96% from HK$0.45 per share (the price adopted in the computation of the consideration shares/conversion shares for the acquisition of MH) to HK$0.88 per share (closing price of the Company's shares as quoted on the Stock Exchange on 6 January 2011). Since the fair value of the acquisition consideration was computed using the closing price of the shares at completion date, this resulted in a significant increase in the recorded value of the acquisition consideration and therefore higher goodwill was recognised in the Group's consolidated financial statements than was expected at the time of the Share Transfer Agreement.

The Group incurred acquisition-related costs of HK$2,757,000 (equivalent to RMB2,377,000) which mainly represented external legal fees and due diligence costs and were included in administrative expenses in the Group's consolidated income statement for the year ended 31 December 2010.

35 Non-adjusting event after the reporting period

On 20 July 2011, the Company, KW and Mr Wang Xiao Ping Peter ("the Vendor") entered into a share transfer agreement ("Weihai Share Transfer Agreement"), pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the entire issued share capital of Haney Holdings Limited ("Haney Holdings"), free from encumbrance but together with all rights attached or accruing thereto, at a consideration of HK$410 million (subject to certain consideration adjustments) (the "Acquisition"). Haney Holdings is an investment holding company and its principal asset is its 100% equity interest in World Target Investment Management Consulting (Weihai) Co., Ltd. ("World Target Investment"). Through certain service agreements and other contractual arrangements, World Target Investment is entitled to 100% economic benefit from Weihai Fuhaihua Fluid Chemical Co., Ltd. ("Weihai Fuhaihua"). Weihai Fuhaihua and World Target Investment are principally engaged in the provision of wholesale and storage services of fuel oil in the PRC. The consideration was agreed to be satisfied as to approximately HK$130 million in cash and as to approximately HK$280 million by the Company allotting and issuing consideration shares in 3 tranches (Tranche A, Tranche B and Tranche C).

On 11 November 2011, the Tranche A of 129,606,099 consideration shares ("Consideration Shares") was issued to the Vendor in accordance with the terms stated in the Weihai Share Transfer Agreement and the Company also granted a cash advance of HK$5,000,000 to Haney Holdings for its daily operations.

On 14 November 2011, the Company was informed by Weihai Harbour Group Co., Ltd. ("Wehai Harbour") that there was an issue regarding the 49% equity interest in Weihai Fuhaihua, which a PRC individual ("the Plaintiff"), who was one of the former shareholders of Weihai Fuhaihua holding 70% equity interest in Weihai Fuhaihua before selling his entire equity interest in Weihai Fuhaihua to Weihai Shenzhen Hong Kong Investment Consulting Company Limited ("Weihai Shenzhen") in March 2008, initiated a monetary civil claim against Weihai Shenzhen, the entity currently holding 49% equity interest in Weihai Fuhaihua ("Legal Claim I").

35 Non-adjusting event after the reporting period *(continued)*

It was mentioned in the statement of claim in the Legal Claim I that on 3 March 2008, the Plaintiff entered into a loan agreement with Weihai Shenzhen pursuant to which the Plaintiff agreed to lend RMB25,000,000 to Weihai Shenzhen for acquiring the 70% equity interest in Weihai Fuhaihua from the Plaintiff. It was agreed that the repayment date would be 2 years from the date of the agreement. As alleged by the Plaintiff, Weihai Shenzhen did not repay the loan amount to the Plaintiff. The claim amount against Weihai Shenzhen was approximately RMB25,000,000 (equivalent to approximately HK$30,500,000).

The Plaintiff initiated the Legal Claim I at Shandong Weihai City Intermediate Court ("Weihai Intermediate Court") on 8 June 2011. On 10 June 2011, the Plaintiff further applied to Weihai Intermediate Court to freeze the assets of Weihai Shenzhen. On 13 June 2011, it was ordered by Weihai Intermediate Court that the 49% equity interest (the "Frozen Interest") in Weihai Fuhaihua held by Weihai Shenzhen was frozen. Without the approval from Weihai Intermediate Court, the Frozen Interest could not be transferred, registered for change of ownership or disposed. The court order did not specify the time limit as to the freezing order.

Pursuant to the Weihai Share Transfer Agreement, the registration of the charge of the entire equity interest in Weihai Fuhaihua in favour of World Target Investment was one of the conditions precedent for the acquisition of Haney Holdings. The registration of the charge of 51% equity interest in Weihai Fuhaihua was completed in October 2011 and the registration of charge of 49% equity interest was pending. As the Vendor failed to complete the registration of charge of 49% equity interest in Weihai Fuhaihua by 11 December 2011, this condition precedent was not fulfilled. In accordance with Weihai Share Transfer Agreement, if any of the condition precedents have not been fulfilled or waived by the Company, the Company shall not be bound to proceed with the Acquisition and this agreement shall become void. The directors of the Company had no intention to proceed with the Acquisition and would not waive the above condition.

Besides, Weihai Harbour notified the Company that it had filed an arbitration notice to Weihai Arbitration Committee on 14 November 2011 and alleged that there was material breach of the terms of Co-operation Framework Agreement and Land Use Right Transfer Agreement by Weihai Fuhaihua. Both agreements were entered into between Weihai City Port Management Bureau (the "Port Bureau"), the predecessor of Weihai Harbour, and Weihai Fuhaihua on 25 August 2005 ("Legal Claim II").

Weihai Harbour applied to Weihai Intermediate Court to freeze 3 parcels of land with a total area of approximately 213 mu (the "Frozen Land") obtained by Weihai Fuhaihua under the Land Use Right Transfer Agreement. On 28 November 2011, it was ordered by Weihai Intermediate Court that the Frozen Land was frozen. Without the court's approval, the Frozen Land cannot be transferred, registration for change of ownership or disposed.

35 Non-adjusting event after the reporting period *(continued)*

In addition to the Legal Claim I and the Legal Claim II, there was also a complaint that the other two individual shareholders holding in aggregate 51% equity interest in Weihai Fuhaihua were suspected to have misappropriated the capital of Weihai Fuhaihua and were under investigation by the Public Security Bureau of Weihai City. It was also alleged that some of Weihai Fuhaihua's senior management have committed serious financial crime.

Referring to the Frozen Interest, since it was subject to a frozen order, the registration of the charge of 49% equity interest in favour of World Target Investment could not be proceeded by the governmental authorities in the PRC for the time being and as advised by the Company's PRC legal counsel, the charge of 49% equity interest in Weihai Fuhaihua would not be valid until it could be successfully registered with the government authorities in the PRC.

For the Frozen Land, the Company has been advised by its PRC legal counsel that through the Frozen Land was subject to a frozen order, Weihai Fuhaihua could still continue its business and daily operations. However, in the event that Weihai Fuhaihua lost in the arbitration, the Co-operation Framework Agreement and the Land Use Right Transfer Agreement may be terminated and the Frozen Land must be returned to Weihai Harbour and Weihai Fuhaihua would not be allowed to operate the wholesale and storage of petrochemicals, which is its principal business.

In view of the abovementioned, the Company's directors consider that the Vendor failed to disclose to the Company in writing prior to the completion of the Acquisition that there was material adverse change in the condition of Weihai Fuhaihua which constituted a material breach of the warranties of the Vendor under the Wehai Share Transfer Agreement. Taking into account of the Vendor's failure to fulfil the understaking to complete the registration of the share charge over the 49% equity interest in Weihai Fuhaihua, the breach of warranties and the possible impact of the Legal Claim II, the Company determined to exercise the right in Weihai Share Transfer Agreement to terminate the Acquisition in December 2011. The Company's directors consider it to be appropriate to cancel the Acquisition in order to protect the Company and its shareholders' interest as a whole. As at the end of the reporting period, the Company had initiated the legal proceedings for the cancellation of the Acquisition and would demand for the refund of cash advance of HK$5,000,000 that had been paid to Haney Holdings and the return of 129,606,099 Consideration Shares that had been issued to the Vendor on 11 November 2011.

35 Non-adjusting event after the reporting period *(continued)*

On 6 March 2012, the Company and KW initiated a civil claim against the Vendor in The Court of First Instance of the High Court of Hong Kong Special Administrative Region. The Company and KW claimed a declaration that the Share Transfer Agreement was not binding and enforceable against the Company and KW by reason of the non-fulfillment of the conditions precedent of the Weihai Share Transfer Agreement and that the 129,606,099 Consideration Shares issued to the Vendor pursuant to the Weihai Share Transfer Agreement were held on resulting or constructive trust for the Company and KW. The Company and KW also sought an order for rescission of the Weihai Share Transfer Agreement. A hearing was held on 9 March 2012 and the Company received the sealed copy of order (the "Hong Kong Court Order") from the Court of First Instance of the High Court of the Hong Kong Special Administrative Region. It was ordered that until 16 March 2012 or further Hong Kong Court Order, the Vendor, whether by himself or through his employees, agents, servants or otherwise howsoever, be restrained from selling, transferring, disposing, charging, mortgaging, pledging or otherwise encumbering or dealing with any of the 129,606,099 Consideration Shares issued to him on 11 November 2011. The Hong Kong Court Order will remain in force up to and including 16 March 2012.

A further hearing was held on 16 March 2012 and it was ordered that the application be adjourned to 11 May 2012 and the Hong Kong Court Order against the Vendor be continued until determination of the application or further order of the High Court of the Hong Kong Special Administrative Region.

As at the date of approval of the Group's financial statements, the Company had received a total of five share certificates representing 24,606,099 Consideration Shares issued to the Vendor. The Vendor had also agreed to return the share certificates for the remaining 105,000,000 Consideration Shares in due course. The Company's legal counsel is currently drafting the legal documents and preparing for the necessary legal procedures for the cancellation of the Acquisition.

(Expressed in Renminbi unless otherwise indicated)

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IFRS 7, Financial instruments: *Disclosures - Transfers of financial assets*	1 July 2011
Amendments to IAS 12, *Income taxes - Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to IAS 1, *Presentation of financial statements - Presentation of items of other comprehensive income*	1 July 2012
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements (2011)*	1 January 2013
IAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013
IFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.