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)

Interim Report 2012

* For identification purposes only

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

Independent Non-executive Directors
Dr. Cheng Faat Ting Gary
Prof. Ji Chang Ming
Mr. Poon Lai Yin Michael

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

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

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

Auditors
KPMG

Principal Bankers
Agricultural Bank of China
Bank of China
China Construction Bank
The Hong Kong and
Shanghai Banking Corporation
Limited

Legal Advisers
Conyers Dill & Pearman, Cayman
Li & Partners

Qualified Accountant and Company Secretary
Ms. Li Mei Kuen

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Hong Kong Branch Share Registrar
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Computershare Investor Services Inc
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Stock Name
Sino Dragon

Stock Code
HKEX: 0395

The Board of Directors (the "Board") of Sino Dragon New Energy Holdings Limited (the "Company") presented the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 together with the comparative figures. The condensed consolidated interim financial statements (the "Interim Financial Statements") have not been audited, but have been reviewed by the Company's Audit Committee.

Condensed Consolidated Statement of Comprehensive Income/(Loss)

For the six months ended 30 June 2012

		Unaudited Six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
Turnover	2	**85,860**	136,685
Cost of sales		**(84,594)**	(106,404)
Gross profit		**1,266**	30,281
Other income		**61**	49
Change in fair value of convertible bonds and derivative financial instruments	12	**8,813**	17,020
Distribution costs		**(2,453)**	(2,244)
Administrative expenses		**(12,610)**	(20,433)
Other operating expenses		**(354)**	(350)
(Loss)/Profit from operations		**(5,277)**	24,323
Net finance costs	3(a)	**(5,344)**	(4,162)
(Loss)/Profit before taxation	3	**(10,621)**	20,161
Income tax	4	**—**	(3,526)
(Loss)/Profit for the period		**(10,621)**	16,635

Condensed Consolidated Statement of Comprehensive Income/(Loss) *(Continued)*

For the six months ended 30 June 2012

		Unaudited	
		Six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
Other comprehensive (loss)/ income for the period:			
Exchange differences on translation of:			
— financial statements of operations outside the People's Republic of China		**(621)**	5,126
Total comprehensive (loss)/income for the period		**(11,242)**	21,761
Attributable to:			
Equity holders of the Company		**(11,245)**	21,761
Non-controlling interest		**3**	—
		(11,242)	21,761
Dividends	5	**—**	—
(Loss)/Earnings per share			
Basic *(RMB cents)*	6	**(0.41)**	0.72
Diluted *(RMB cents)*	6	**(0.64)**	0.72

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	Notes	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment	7	**170,675**	174,804
Construction in progress		**25,167**	24,967
Lease prepayments		**60,223**	61,082
Intangible assets	15	**163,000**	167,302
Long-term prepayments		**27,000**	26,995
Goodwill		**20,217**	20,217
Deferred tax assets		**116,744**	116,744
Total non-current assets		**583,026**	592,111
Current assets			
Inventories		**24,865**	32,500
Trade and other receivables and prepayments	8	**542,346**	379,328
Amount due from related parties	17(b)	**2,276**	2,962
Lease prepayments		**1,597**	1,597
Pledged deposits	9	**402,000**	251,450
Deposits maturing beyond three months when placed		**—**	17,000
Cash and cash equivalents	10	**40,284**	66,546
Total current assets		**1,013,368**	751,383
Total assets		**1,596,394**	1,343,494

Condensed Consolidated Statement of Financial Position *(Continued)*

At 30 June 2012

	Notes	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Current liabilities			
Trade and other payables	11	**880,329**	612,693
Interest-bearing bank borrowings		**40,000**	20,000
Amounts due to related parties	17(b)	**3,278**	18,120
Current taxation		**19,308**	21,515
Total current liabilities		**942,915**	672,328
Net current assets		**70,453**	79,055
Non-current liabilities			
Deferred tax liabilities		**47,808**	47,808
Convertible bonds	12	**39,348**	35,391
Derivative financial instruments	12	**7,038**	17,440
Total non-current liabilities		**94,194**	100,639
NET ASSETS		**559,285**	570,527
Capital and reserves			
Share capital	14	**123,332**	123,332
Reserves		**435,954**	447,199
Total equity attributable to equity holders of the Company		**559,286**	570,531
Non-controlling interest		**(1)**	(4)
TOTAL EQUITY		**559,285**	570,527

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012

		Unaudited	
		Six months ended 30 June	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
Net cash used in operating activities		**(57,049)**	(43,601)
Net cash used in investing activities		**(314)**	(95,436)
Net cash generated from financing activities		**14,206**	5,187
Effects of exchange rate changes		**(105)**	(5,175)
Net decrease in cash and cash equivalents		**(43,262)**	(139,025)
Cash and cash equivalents at 1 January		**83,546**	276,802
Cash and cash equivalents at 30 June	10	**40,284**	137,777

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

Unaudited
Six months ended 30 June 2012

	Share Capital RMB'000	Merger Reserve RMB'000	Share Premium RMB'000	Statutory Reserves RMB'000	Capital Reserve RMB'000	Exchange Reserve RMB'000	Amount receivable in respect of consideration shares issued to the vendor RMB'000	Accumulated Losses RMB'000	Total RMB'000	Non-controlling Interest RMB'000	Total Equity RMB'000
At 1 January 2012	123,332	(11,085)	746,929	95,452	18,006	(2,859)	(83,275)	(315,969)	570,531	(4)	570,527
Expiry of share options	–	–	1,475	–	(1,475)	–	–	–	–	–	–
Loss for the period	–	–	–	–	–	–	–	(10,624)	(10,624)	3	(10,621)
Other comprehensive loss for the period	–	–	–	–	–	(621)	–	–	(621)	–	(621)
At 30 June 2012	123,332	(11,085)	748,404	95,452	16,531	(3,480)	(83,275)	(326,593)	559,286	(1)	559,285

Unaudited
Six months ended 30 June 2011

	Share Capital RMB'000	Merger Reserve RMB'000	Share Premium RMB'000	Statutory Reserves RMB'000	Capital Reserve RMB'000	Exchange Reserve RMB'000	Accumulated Losses RMB'000	Total RMB'000	Non-controlling Interest RMB'000	Total Equity RMB'000
At 1 January 2011	101,850	(11,085)	416,702	92,749	12,400	(6,265)	(79,169)	527,182	(1)	527,181
Consideration Shares issued upon completion of acquisition	9,464	–	157,107	–	–	–	–	166,571	–	166,571
Shares issued under share option scheme	719	–	13,140	–	(4,111)	–	–	9,748	–	9,748
Equity-settled share-based payment	–	–	–	–	8,069	–	–	8,069	–	8,069
Shares issued upon conversion of convertible bonds	6,009	–	81,971	–	–	–	–	87,980	–	87,980
Profit for the period	–	–	–	–	–	–	16,635	16,635	–	16,635
Other comprehensive income for the period	–	–	–	–	–	5,124	–	5,124	2	5,126
At 30 June 2011	118,042	(11,085)	668,920	92,749	16,358	(1,141)	(62,534)	821,309	1	821,310

Notes to the Unaudited Interim Financial Statements

(Expressed in Renminbi unless otherwise stated)

The following notes form an integral part of the Interim Financial Statements.

1. Basis of Preparation

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. This interim condensed consolidated financial statements comprises the Company and its subsidiaries (together referred to as the "Group") and has been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* promulgated by the International Accounting Standards Board.

The interim financial statements do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011. The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements.

The Group has adopted the applicable standards, amendments and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2012. The adoption of such standards, amendments and interpretations did not have material effect on these results.

The preparation of the interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date process. Actual results may differ from these estimates.

The measurement basis used in the preparation of the interim 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 interim financial statements, the Group adopted Renminbi as its presentation currency, rounded to the nearest thousand.

2. Turnover and Segment Information

Turnover represents the sales value of goods and services sold less returns, discounts and value added taxes and other sales taxes. The Group manages its businesses by the operating subsidiaries in the People's Republic of China 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. The Group has identified the following reportable segments for the current period:

— Yixing Xinxing Zirconium Company Limited ("YXZL")

— Yixing Better Batteries Company Limited ("YBBL")

— Binhai Dragon Crystal Chemicals Company Limited ("BHDC")

— P.T.Asia Prima Resources ("APR")

— Muntari Holdings Limited and its subsidiaries ("Muntari Group")

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments for the period is set out below:

	YXZL (Unaudited) Six months ended 30 June		YBBL (Unaudited) Six months ended 30 June		BHDC (Unaudited) Six months ended 30 June		APR (Unaudited) Six months ended 30 June		Muntari Group (Unaudited) Six months ended 30 June		Total (Unaudited) Six months ended 30 June	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	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	**64,811**	78,072	**7,790**	8,043	**—**	—	**—**	—	**13,259**	23,102	**85,860**	109,217
Inter-segment revenue	**5,088**	4,078	**—**	—	**22,058**	9,699	**—**	—	**—**	14,547	**27,146**	28,324
Reportable segment revenue	**69,899**	82,150	**7,790**	8,043	**22,058**	9,699	**—**	—	**13,259**	37,649	**113,006**	137,541
Reportable segment profit/(loss) before taxation	**(5,198)**	4,852	**(51)**	1,009	**(2,875)**	(2,165)	**7**	—	**(260)**	13,704	**(8,377)**	17,400
Net finance income/(costs)	**408**	1,135	**6**	30	**(2)**	(1)	**51**	55	**(4,373)**	140	**(3,910)**	1,359
Depreciation and amortisation	**2,418**	1,764	**173**	165	**1,954**	1,624	**—**	78	**6,986**	2,119	**11,531**	5,750

	YXZL		YBBL		BHDC		APR		Muntari Group		Total	
	(Unaudited)	**(audited)**	**(Unaudited)**	**(audited)**	**(Unaudited)**	**(audited)**	**(Unaudited)**	**(audited)**	**(Unaudited)**	**(audited)**	**(Unaudited)**	**(audited)**
	30 June	**31 December**	**30 June**	**31 December**	**30 June**	**31 December**	**30 June**	**31 December**	**30 June**	**31 December**	**30 June**	**31 December**
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**392,827**	396,857	**23,698**	22,665	**102,950**	68,672	**–**	–	**940,859**	677,842	**1,460,334**	1,166,036
Reportable segment liabilities	**(162,245)**	(161,077)	**(4,247)**	(3,163)	**(200,062)**	(162,908)	**(2)**	(9)	**(857,585)**	(594,292)	**(1,224,141)**	(921,449)

(b) **Reconciliation of reportable segment revenue, profit or loss, assets and liabilities**

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**113,006**	137,541
Elimination of inter-segment revenue	**(27,146)**	(28,324)
Other segment revenue	**—**	27,468
Consolidated turnover	**85,860**	136,685
Profit/(Loss)		
Reportable segment (loss)/profit	**(8,377)**	17,400
Operating loss of other segment	**(1,043)**	(211)
Other gains *(Note 12)*	**8,813**	17,020
Unallocated head office and corporate expenses	**(10,014)**	(14,048)
Consolidated (loss)/profit before taxation	**(10,621)**	20,161

	30 June 2012 (unaudited) RMB'000	31 December 2011 (audited) RMB'000
Assets		
Reportable segment assets	**1,460,334**	1,166,036
Elimination of inter-segment receivables	**(191,632)**	(160,163)
Deferred tax assets	**116,744**	116,744
Fair value adjustments on property, plant and equipment and tangible assets	**186,360**	191,231
Goodwill	**20,217**	20,217
Unallocated head office and corporate assets	**4,371**	9,429
Consolidated total assets	**1,596,394**	1,343,494
Liabilities		
Reportable segment liabilities	**1,224,141**	921,449
Elimination of inter-segment payables	**(283,252)**	(251,815)
Deferred tax liabilities	**47,808**	47,808
Convertible bonds	**39,348**	35,391
Derivative financial instruments	**7,038**	17,440
Unallocated head office and corporate liabilities	**2,026**	2,694
Consolidated total liabilities	**1,037,109**	772,967

3. (Loss) /Profit before Taxation

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

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
(a) Net finance costs:		
Interest income	**(2,141)**	(1,433)
Interest on bank borrowings wholly repayable within five years	**5,794**	1,715
Imputed interest expenses on convertible bonds	**1,852**	2,820
Net exchange (gain)/loss	**(161)**	1,060
	5,344	4,162
(b) Staff costs:		
Salaries, wages and other benefits	**7,186**	6,467
Contributions to defined contribution retirement scheme	**399**	325
	7,585	6,792
(c) Other items:		
Amortisation		
— lease prepayments	**857**	827
— intangible assets	**4,301**	—
Depreciation	**6,379**	4,930
Research and development costs	**—**	—
Operating lease charges in respect of the office premises in Hong Kong	**324**	333
Cost of inventories	**77,834**	98,684

4. Income Tax

	Unaudited Six months ended 30 June	
	2012	2010
	RMB'000	*RMB'000*
Current tax - the People's Republic of China (the "PRC") income tax		
Provision for the period	**—**	3,526
Deferred tax		
Origination and reversal of temporary differences	**—**	—

(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 six months ended 30 June 2011 and 2012.

(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 six months ended 30 June 2011 and 2012.

No CIT provision has been made for Yixing Xinxing Zirconium Company Limited as it incurred tax losses for both six months ended 30 June 2011 and 2012.

As a production-oriented foreign investment enterprise ("FIE"), Yixing Better Batteries Company Limited ("YBBL") had kick off its Tax Holiday ("Tax Holiday") under the old PRC Corporate Income Tax regime in 2008. As such, YBBL was exempted from CIT in 2008 and 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 both six months ended 30 June 2011 and 2012 as YBBL has sufficient tax losses brought forward to offset the assessable profits.

No CIT provision has been made for Binhai Dragon Crystal Chemicals Company Limited as it did not have any assessable profits for both six months ended 30 June 2011 and 2012. No CIT provision has been made for Ningbo Bokun Petrochemicals Storage Co., Ltd. as it did not generate assessable profit during the period. CIT provision has been made for Ningbo Lianyi Enterprise Management Consulting Co., Ltd. ("Lianyi") at a tax rate of 25% on the assessable profits for the six months ended 30 June 2011. No CIT provision has been made for Lianyi for the six months ended 30 June 2012 as it did not have any assessable profits for the period.

(iv) *Pursuant to the Income Tax Laws 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 is made for APR as it has no assessable profit for both six months ended 30 June 2011 and 2012.*

The deferred tax assets of subsidiaries in the PRC are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered.

5. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

6. (Loss)/Earnings per Share

The calculation of basic and dilutive (loss)/earnings per share is based on the following data:

	Unaudited Six months ended 30 June 2012 RMB'000	2011 RMB'000
(Loss)/Earnings		
(Loss)/Earnings for the purpose of basic (loss)/earnings per share	**(10,621)**	16,635
Effect of imputed interest of convertible bonds	**1,852**	—
Effect of change in fair value of convertible bonds and derivative financial instruments	**(8,813)**	—
(Loss)/Earnings for the purpose of diluted (loss)/earnings per share	**(17,582)**	16,635

	Unaudited	
	Six months ended 30 June	
	2012	2011
	No. of Shares	*No. of Shares*
Weighted Average Number of Shares		
Weighted average number of ordinary shares (basic)	**2,583,412,645**	2,311,436,995
Effect of deemed issue of shares under the Company's Share Option Schemes for nil consideration	**116,260**	14,088,612
Effect of deemed issue of shares for conversion of convertible bonds	**144,444,444**	—
Weighted average number of ordinary shares (diluted)	**2,727,973,349**	2,325,525,607

Certain outstanding share options were not included in the calculation of diluted earnings per share for the six months ended 30 June 2012 as the effect of such share options were anti-dilutive. The effect of the Company's outstanding convertible bonds were not included in the calculation of diluted earnings per share for the six months period ended 30 June 2011 because the effect of the Company's outstanding convertible bonds were anti-dilutive in that period.

7. Property, Plant and Equipment

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a cost of RMB2,250,000 (six months ended 30 June 2011: RMB2,652,000). During the six months ended 30 June 2012, the Group did not dispose any property, plant and equipment (Six months ended 30 June 2011: Nil).

At 30 June 2012, the Group was 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 RMB7,024,000 (31 December 2011: RMB6,467,000).

At 30 June 2012, the Group's plant and machinery with net carrying amount of approximately RMB105,419,000 (31 December 2011: RMB110,749,000) were pledged to secure the Group's bank loans.

8. Trade and Other Receivables and Prepayments

	30 June 2012 (unaudited) ***RMB'000***	31 December 2011 (audited) *RMB'000*
Trade receivables	**193,119**	25,043
Less: Allowance for doubtful debts	**(599)**	(599)
	192,520	24,444
Advance payments to suppliers		
— petrochemical suppliers	**296,454**	328,545
— other suppliers	**39,565**	4,303
Deposits, prepayments and other receivables	**13,807**	22,036
	542,346	379,328

(a) Ageing analysis

All of the trade and other receivables and prepayments are expected to be recovered within one year. An ageing analysis of trade receivables (net of allowance for doubtful debts) as of the reporting dates follows:

	30 June 2012 (unaudited) ***RMB'000***	31 December 2011 (audited) *RMB'000*
Current	**174,955**	18,218
Less than 3 months past due	**11,914**	2,635
More than 3 months but less than 1 year past due	**5,651**	3,591
Amounts past due	**17,565**	6,226
	192,520	24,444

Trade receivables are normally due within 30 to 90 days from the date of billing.

(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.

At 30 June 2012, the Group's trade receivables of RMB599,000 (31 December 2011: RMB599,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB599,000 (31 December 2011: RMB599,000) were recognised. The Group does not hold any collateral over these balances.

(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:

	30 June 2012 (unaudited) ***RMB'000***	31 December 2011 (audited) *RMB'000*
Neither past due nor impaired	**174,955**	18,218
Less than 3 months past due	**11,914**	2,635
More than 3 months but less than 1 year past due	**5,651**	3,591
	17,565	6,226
	192,520	24,444

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. The Group does not hold any collateral over these balances.

9. Pledged deposits

As at 30 June 2012, bank deposits of RMB402,000,000 (31 December 2011: RMB251,450,000) have been pledged to banks as security for bills payable.

10. Cash and Cash Equivalents

	30 June 2012 (unaudited) ***RMB'000***	31 December 2011 (audited) *RMB'000*
Deposits with banks	**20,063**	162
Cash at bank and in hand	**20,221**	66,384
Cash and cash equivalents in the consolidated statement of financial position	**40,284**	66,546
Bank deposits maturing beyond three months when placed	**—**	17,000
Cash and cash equivalents in the consolidated cash flow statement	**40,284**	83,546

11. Trade and Other Payables

	30 June 2012 (unaudited) ***RMB'000***	31 December 2011 (audited) *RMB'000*
Trade payables	**12,081**	5,774
Bills payable	**812,000**	551,450
Receipts in advance from customers	**2,041**	1,195
Payable for construction costs and acquisition of property, plant and equipment	**38,412**	27,391
Other payables and accruals	**15,795**	26,883
	880,329	612,693

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 reporting date:

	30 June 2012 (unaudited) ***RMB'000***	31 December 2011 (audited) *RMB'000*
Within 3 months	**305,703**	4,470
3 months to 6 months	**252,608**	551,726
6 months to 1 year	**261,381**	289
Over 1 year	**4,389**	739
	824,081	557,224

12. Convertible Bonds

On 6 January 2011, the Company issued 2 tranches, Tranche 1 and Tranche 2, of convertible bonds (“CB”) 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. The convertible bonds are interest-free and unsecured.

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

As at 30 June 2012, the conversion right of Tranche 2 CB has not been exercised. Details of the outstanding convertible bonds are as follows:

	Tranche 2 CB
Principal amount	HK$65,000,000
Interest rate	Nil
Convertible into the Company’s ordinary shares at HK$0.05 each (number of shares)	144,444,444
Conversion price per ordinary share	HK$0.45
Maturity date	6 January 2016

The movement of CB for the period ended 30 June 2012 and for the year ended 31 December 2011 is set out below:

	Liability component (unaudited) *RMB'000*	Derivative component (unaudited) *RMB'000*	Total (unaudited) *RMB'000*
At 1 January 2012	35,391	17,440	52,831
Interest charge for the period	1,852	—	1,852
Change In fair value	1,726	(10,539)	(8,813)
Foreign currency translation difference	379	137	516
At 30 June 2012	39,348	7,038	46,386

	Liability component (audited) *RMB'000*	Derivative component (audited) *RMB'000*	Total (audited) *RMB'000*
At 1 January 2011	—	—	—
Issue of CB, net of direct transaction costs	63,390	130,610	194,000
Interest charge for the year	4,194	—	4,194
Change in fair value	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

13. 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 may, at its discretion, grant share options ("Options") to the eligible persons as defined in the Old Scheme. The Old Scheme was terminated on 27 May 2011, 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.

Pursuant to the resolution passed by the shareholders of the Company in the Annual General Meeting held on 27 May 2011, 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.

During the six months ended 30 June 2012, no Options were granted under the Old Scheme (2011: Nil) and the New Scheme (2011: 27,480,000 Options were granted).

The terms and conditions of the unexpired and unexercised Options at 30 June 2012 are as follows:

	Date of grant	Exercise period	Number of Options: At 1 January 2012	Granted during the period	Exercised during the period	At 30 June 2012	Exercise Price per share
							HK$
Executive Directors							
Yang Xin Min	14/6/2011	14/6/2011–13/6/2016	1,600,000	—	—	1,600,000	0.818
Huang Yue Qin	14/6/2011	14/6/2011–13/6/2016	600,000	—	—	600,000	0.818
Zhou Quan	14/6/2011	14/6/2011–13/6/2016	600,000	—	—	600,000	0.818
Li Fu Ping	14/6/2011	14/6/2011–13/6/2016	600,000	—	—	600,000	0.818
Fang Guo Hong	14/6/2011	14/6/2011–13/6/2013	22,480,000	—	—	22,480,000	0.818
Subtotal			25,880,000	—	—	25,880,000	
Non-Executive Director							
Wang Jia Wei	14/6/2011	14/6/2011–13/6/2016	600,000	—	—	600,000	0.818

	Date of grant	Exercise period	Number of Options: At 1 January 2012	Granted during the period	Exercised/ Lapsed during the period	At 30 June 2012	Exercise Price per share *HK$*
Independent Non-Executive Directors							
Cheng Faat Ting Gary	14/6/2011	14/6/2011–13/6/2016	200,000	—	—	200,000	0.818
Ji Chang Ming	31/5/2010	31/5/2010–30/5/2015	200,000	—	—	200,000	0.261
Ji Chang Ming	14/6/2011	14/6/2011–13/6/2016	200,000	—	—	200,000	0.818
Poon Lai Yin Michael	14/6/2011	14/6/2011–13/6/2016	200,000	—	—	200,000	0.818
Subtotal			800,000	—	—	800,000	
Employee	14/6/2011	14/6/2011–13/6/2016	600,000	—	—	600,000	0.818
Third-party consultants	15/8/2008	15/8/2008–15/8/2013	600,000	—	—	600,000	0.330
	3/12/2010	3/12/2010–2/12/2012	34,000,000	—	—	34,000,000	0.680
	21/6/2011	21/6/2011–20/6/2013	5,000,000	—	(5,000,000)	—	0.860
Subtotal			39,600,000	—	(5,000,000)	34,600,000	
Total			67,480,000	—	(5,000,000)	62,480,000	

14. Share Capital

The Company has authorised capital of 8,000,000,000 ordinary shares at HK$0.05 each. As at 30 June 2012, 2,583,412,645 shares (31 December 2011: 2,583,412,645 shares) were issued and fully paid.

15. Intangible assets

	Technical know-how (unaudited) *RMB'000*	Operating license (unaudited) *RMB'000*	Backlog (unaudited) *RMB'000*	Total (unaudited) *RMB'000*
Cost:				
At 1 January 2011	4,345	—	—	4,345
Acquisition of subsidiaries	—	174,924	1,141	176,065
At 31 December 2011, 1 January 2012 and 30 June 2012	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 and 1 January 2012	4,342	7,951	815	13,108
Charge for the period	1	3,975	326	4,302
At 30 June 2012	4,343	11,926	1,141	17,410
Net book value:				
At 30 June 2012	2	162,998	—	163,000
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 period is included in cost of sales and administrative expenses in the consolidated income statement.

16. Commitments

(a) Capital Commitments

	30 June 2012 (unaudited) ***RMB'000***	31 December 2011 (audited) *RMB'000*
Contracted for	**12,947**	13,427
Authorised but not contracted for	**—**	—
	12,947	13,427

(b) At 30 June 2012, the Group had a commitment of US$561,000 (31 December 2011: US$561,000) equivalent to approximately RMB3,563,000 (31 December 2011: RMB3,535,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

17. Material Related Party Transactions

(a) Transactions carried out in normal course of business

Pursuant to a motor vehicles service agreement dated 15 February 2012 entered into between Ningbo Bokun Petrochemical Storage Company Limited ("Ningbo Bokun") and Shanghai Bokun Investment Co., Ltd. ("Shanghai Bokun"), Ningbo Bokun has agreed to pay a monthly service fee of RMB150,000 for the use of certain motor vehicles provided by Shanghai Bokun. The service period is from 15 February 2012 to 31 August 2012. Shanghai Bokun is a related company incorporated in the PRC and controlled by Mr. Wang Jia Wei, a substantial shareholder and non-executive director of the Company.

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

	Notes	**30 June 2012 (unaudited)** ***RMB'000***	31 December 2011 (audited) *RMB'000*
Amounts due from related parties:			
— Mr. Yang Xin Min, Director of the Company	(i)	**2,276**	2,962
Amounts due to related parties:			
— Shanghai Chuangsheng Petrochemical Industry Co., Ltd	(ii)	**—**	(15,000)
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (iii)	**(1,138)**	(1,138)
— Directors of the Company	(i)	**(2,140)**	(1,982)
		(3,278)	(18,120)

Notes:

(i) The balances at 30 June 2012 and 31 December 2011 are unsecured, non-interest bearing and repayable on demand.

(ii) The party is related to the extent that Ms Li Hui Qiang, a key management personnel of Ningbo Lianyi and Ningbo Bokun, 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.

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

(c) Guarantee provided by related party for banking facilities

As at 30 June 2012, the Group's bills payable of RMB812,000,000 (Note 11) were secured by the pledged bank deposits of RMB402,000,000 (Note 9) and a guarantee provided by Shanghai Bokun Investment Co., Ltd., a company incorporated in the PRC and controlled by Mr. Wang Jia Wei, a substantial shareholder and director of the Company.

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors is as follows:

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Short-term employee benefits	**1,563**	1,555

18. Unadjusted Events After the End of the Reporting Period

At an extraordinary general meeting held by the Company on 30 July 2012, the shareholders of the Company passed the special resolutions to approve, among others, the deed of settlement (the "Deed of Settlement") dated 25 May 2012 and the transactions contemplated therein. Upon the Deed of Settlement took effect on 30 July 2012, the Company cancelled a total of 129,606,099 ordinary shares which were surrendered by Mr. Wang Xiaoping Peter at nil consideration payable by the Company. The acquisition of Haney Holdings Limited was cancelled with effect from 30 July 2012. After the cancellation of 129,606,099 shares, the total number of issued shares of the Company was reduced from 2,583,412,645 shares to 2,453,806,546 shares as at 30 July 2012.

19. Approval of the Unaudited Interim Financial Statements

The unaudited interim financial statements was approved and authorised for issue by the Board on 24 August 2012.

Management Discussion and Analysis

Caution regarding forward-looking statements

This Management Discussion and Analysis contains forward-looking statements which reflect the Company's current beliefs with respect to future events and are based on information currently available to the Company. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. When reviewing the Company's forward-looking statements, investors and others should not place undue reliance on these forward-looking statements and should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update the forward-looking statements. The Company has an ongoing obligation to disclose material information as it becomes available.

Review of Results and Operations

Business Review

During the six months ended 30 June 2012, economic fluctuation persisted in Japan, United States and Europe, which to a certain extent led to the slow-down of economic growth in China. Under the adverse macro environment, the global market for zirconium chemicals used in consumption products, such as cosmetics and electronic appliances, remained sluggish. On the raw materials supply side, price of zircon sand remained at a high level throughout the current period, which, together with the increasing labor cost in China, imposed significant pressure on the margin of zirconium chemical products. Moreover, the increasingly stringent regulatory controls over environmental protection and anti-pollution in China has not only increased the production cost for zirconium chemical business but also caused an undue delay in the official license approval process for the Group's Binhai plant. As a result, the Binhai plant could only be operated at a trial operation scale until the official license is obtained. This significantly affected the cost and margin of the Group's zirconium products.

On the other hand, the Group's petrochemical storage and trading business was adversely affected by the fluctuating price of petrochemicals during the period. The drop in PRC petrochemicals price in the second quarter of 2012 had caused the profit margin of the Group's petrochemical trading business to drop further. Expectation on further drop in oil price had also led to a decrease in the utilization rate and lease rental rate of the Group's petrochemical storage facilities since the market participants were reluctant to keep excessive stock of petrochemicals and hence demand for storage facilities decreased. Furthermore, the Group's petrochemicals storage facilities (i.e. the oil tanks) were due for major maintenance, including re-painting and rust-proof coating works on all oil tanks, in this year. For safety reason, when the painting and coating works are carrying out, the oil tanks must be empty or else the petrochemicals stored therein will easily be set on fire. Therefore, from May 2012 onwards, the Group started to temporarily suspend the leases of certain oil tanks in order to schedule for major maintenance. This kind of major maintenance would need to be done in every 3 to 5 years, highly depending on the weather condition which has a direct impact on the coating of the oil tanks. Major maintenance work is currently ongoing and it is expected to complete by end of September 2012. Once they were done, the leases of the oil tanks will be resumed.

The rechargeable batteries business continued to generate a stable income stream for the Group despite it recorded a drop in turnover and a net loss in current period. The decrease in profitability was mainly resulted from the increasing raw materials cost and labor cost.

The operation of the Group's zircon processing plant in Indonesia remains suspended during the current period. Given the uncertainty in the operating environment in Indonesia, the Company's management considered that to continue suspending the Indonesian plant would be more appropriate for the time being as this will reduce the cash outflow and avoid incurring additional operating loss for the Group.

Financial Review

During the six months ended 30 June 2012, the Group's reported a consolidated revenue of RMB85,860,000, represented a decrease of RMB50,825,000 or 37.2% as compared to same period in prior year. The decrease was partly due to the decrease in the revenue for YXZL and Muntari Group by RMB13,261,000 and RMB9,843,000, respectively. During the period ended 30 June 2011, the Group's subsidiary in Hong Kong had also generated revenue of RMB27,468,000 from the trading business with certain Japanese customers. However, such trading business was not recurring in nature and no similar transaction was carried out in the current period. This was the major reason accounted for the drop in consolidated turnover in the current period.

For the period under review, the Group generated a gross profit of RMB1,266,000, decreased by 95.8% as compared to same period in 2011. The significant drop in gross profit was primarily resulted from the negative gross margin of both the zirconium chemical business and batteries business as a result of the increasing raw materials cost and labor cost. In addition, the gross margin of petrochemicals business segment had dropped in current period since it continued to absorb depreciation charges (as cost of sales) during the period when certain oil tanks were closed for maintenance and generated nil rental income.

The change in fair value of convertible bonds and derivative financial instruments represented the net gain in fair value of the outstanding convertible bonds and its derivative portion. Such fair value was determined with reference to the assessment made by independent valuer as at period end.

Notwithstanding the lower revenue generated by the Group in the current period, distribution expenses had increased by RMB209,000 or 9.3% as compared to the same period in prior year. The increase was mainly attributable to the higher transportation cost incurred for the current period.

Administrative expenses had decreased from RMB20,433,000 in prior period to RMB12,610,000 in current period, represented a reduction of RMB7,823,000 or 38.3%. Included in the administrative expenses for the same period in 2011 was an amount of equity-settled share-based payment of approximately RMB8,125,000, represented the fair value of share options granted being recognised as administrative expenses in that period. As no share options were granted by the Company during the period ended 30 June 2012, there was no such expenses incurred for the current period. Taking away the effect of this item, the administrative expenses for the current period did not have significant fluctuation as compared to the same period in last year.

Net finance cost increased by RMB1,182,000 in current period due to the higher balances of short-term bank loans and bills payable.

No income tax provision had been made by the Company for the period ended 30 June 2012 since the Group's subsidiaries were either loss-making or did not generate a taxable profit in the current period.

Prospects

Notwithstanding that the Company's consolidated operating results for the first half year of 2012 was unsatisfactory, the Company's management is confident that the performance of the Group will improve in the second half year of 2012. For zirconium chemicals and rechargeable batteries businesses, the Group will continue to improve the product mix and focus on higher margin products to grow its business. For the petrochemicals storage and wholesale business, the management will continue to seek for desirable opportunities to expand this segment by various means including merger and acquisition. Meanwhile, the Group will maintain a prudent approach towards finances, and will step up efforts on cost control and improving efficiency of management, so as to preserve the momentum of development amid the challenging business environment.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012.

Substantial Shareholder's and Directors' Interests in Securities

Substantial Shareholder's Interests in Securities

As at 30 June 2012, the register of shareholders maintained pursuant to the Securities and Futures Ordinance (the "SFO") shows that the following shareholders with interests representing 5% or more of the Company's issued share capital:

		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	592,573,880	1,600,000	—	594,173,880	23.00%
Wang Jia Wei	Beneficial	210,000,000	600,000	144,444,444	355,044,444	13.74%
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 30 June 2012.*

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. Peter Wang") are subject to a court injunction order dated 9 March 2012 ("Order") which restrained Mr. Peter Wang from selling, transferring, disposing, charging, mortgaging, pledging or otherwise encumbering or dealing with any of these shares. The 129,606,099 shares were subsequently repurchased at nil consideration and cancelled by the Company upon approval by the Company's shareholders in an extraordinary general meeting held by the Company on 30 July 2012.*

Save as disclosed above, the Board is not aware of any persons directly or indirectly interested in 5% or more in the shares of the Company as recorded in the register required to be kept under the SFO.

Directors' Interests in Securities

As at 30 June 2012, the interests of the directors and chief executive of the Company in the securities of the Company and its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8, stipulated in Section 341 of Part XV of the SFO (including interests or short positions which they were 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 contained in the Listing Rules, 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	592,573,880	1,600,000	—	594,173,880	23.00%
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	15,836,000	22,480,000	—	38,316,000	1.48%
Wang Jia Wei	Beneficial	210,000,000	600,000	144,444,444	355,044,444	13.74%
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 30 June 2012.*

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.*

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 and, the Board may, at its discretion, grant share options ("Options") to the eligible persons as defined in the Old Scheme. The Old Scheme was terminated on 27 May 2011, 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.

Pursuant to the resolution passed by the shareholders of the Company in the Annual General Meeting held on 27 May 2011, 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.

During the period ended 30 June 2012, no Options have been granted under the Old Scheme and the New Scheme. Details of the Options outstanding as at 30 June 2012 were set out in note 13 to the Interim Financial Statements.

Liquidity and Financial Resources

As of 30 June 2012, the Group has a total cash and bank balances of approximately RMB442,284,000 (31 December 2011: RMB334,996,000), of which RMB402,000,000 (31 December 2011: RMB251,450,000) has been pledged as security for issuing bills payable to the suppliers. The balance of pledged deposits increased due to the increase in the amount of bills payable that had been issued to the suppliers. Disregard of the pledged deposits, the Group's cash and cash equivalents balance has decreased from RMB83,546,000 as at 31 December 2011 to RMB40,284,000 as at 30 June 2012. The decrease in cashflow was mainly used in operating activities in the current period.

At 30 June 2012, the Group's banking facilities totalled RMB852,000,000 (31 December 2011: 571,450,000), of which RMB40,000,000 loan facilities were secured by mortgages over certain property, plant and equipment of the Group with an aggregate carrying value as at 30 June 2012 of approximately RMB RMB105,419,000 (31 December 2011: RMB110,749,000). The remaining balance of RMB812,000,000 trade financing facilities were secured by pledged deposits of RMB402,000,000 and the guarantee provided to the Group by a related company (Note 17 (c)).

As at 30 June 2012, the Company had balances in advance payments to suppliers - petrochemical suppliers of RMB296,454,000 (31 December 2011: RMB328,545,000) and bills payable of RMB812,000,000 (31 December 2011: RMB551,450,000). Such balances were recorded for the petrochemicals business. 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 customers. As at 30 June 2012, the Group's consolidated trade receivables had increased from RMB24,444,444 as at 31 December 2011 to RMB192,520,000, of which RMB158,900,000 were receivables related to the petrochemicals trading business. 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.

Contingent Liabilities

At 30 June 2012, the Group had no material contingent liabilities.

Employees

During the period ended 30 June 2012, the Group had an average of 350 employees (same period of 2011: 345 employees). In the first half year of 2012, the aggregate employee remuneration (including directors' fees) was approximately RMB7,585,000 (same period of 2011: RMB6,792,000). The staff cost has increased in current period mainly because of the increasing labor wages in the PRC. The Group offers competitive salary packages to its employees who are also eligible for incentives based on their individual performance supplementing the Group's overall remuneration and bonus systems.

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 for the six months ended 30 June 2012.

Pre-emptive Rights

There 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.

Material Litigation

During the period, the Company was not involved in any litigation or arbitration of any material importance.

Corporate Governance

Compliance with the Code on Corporate Governance Practices

During the six months period ended 30 June 2012, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except in respect of a code provision providing for the roles of Chairman and Chief Executive Officer to be performed by different individuals. The deviation is deemed appropriate as the Company believes that the combination of the roles of Chairman and Chief Executive Officer promotes the efficient formulation and the implementation of the Company's strategies enabling the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted a code of conduct regarding directors' securities transactions in terms as stringent as those set out in the Model Code. All Directors, following specific enquiries made by the Company, confirmed that they have complied with the required standard of dealings as set out therein throughout the six months period ended 30 June 2012.

Audit Committee

The Company set up an Audit Committee on 24 September 2002 with its written terms of reference being in compliance with the Rules set out in "A Guide for the Formation of An Audit Committee" issued by Hong Kong Institute of Certified Public Accountants. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee along with the management have reviewed the accounting principles, standards and methods adopted by the Group, and has reviewed the unaudited Interim Financial Statements for the six months ended 30 June 2012.

By order of the Board
Yang Xin Min
Chairman

Hong Kong, 24 August 2012