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)

Annual Report 2012

* For identification purposes only

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Yang Xin Min *(Chairman)*
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Fang Guo Hong
Mr. Li Fu Ping (resigned on 10 September 2012)

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

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

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

HEAD OFFICE AND PRINCIPAL PLACES OF BUSINESS

No. 68 Hongxin Road
Xushe Town
Yixing City
Jiangsu Province
PRC

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LEGAL ADVISERS

Li & Partners
Conyers Dill & Pearman, Cayman

PRINCIPAL REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
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Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

CANADIAN BRANCH SHARE REGISTRAR

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100 University Ave., 9th Floor
Toronto, Ontario M5J 2Y1
Canada

STOCK NAME

Sino Dragon

STOCK CODE

Hong Kong Stock Exchange: 395

Financial Summary

	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**156,577**	223,855	153,234	126,108	478,775
Gross profit margin *(%)*	**-2%**	17%	8%	-16%	23%
(Loss)/Profit attributable to shareholders	**(200,362)**	(234,097)	(144,739)	(296,430)	31,287
EBIT	**(171,501)**	(231,064)	(151,033)	(395,655)	45,146
EBITDA	**(150,153)**	(208,230)	(142,150)	(374,551)	64,660
Dividends - ordinary shares	**n/a**	n/a	n/a	n/a	3,788
(Loss)/Earnings per share* (restated) — basic *(RMB)*	**(0.0817)**	(0.0975)	(0.0821)	(0.238)	0.022
(Loss)/Earnings per share* (restated) — diluted *(RMB)*	**(0.0818)**	(0.1078)	(0.0821)	(0.238)	0.022
Debt-equity ratio	**269.7%**	123.3%	net cash position	net cash position	net cash position
Dividends payout ratio *(%)*	**n/a**	n/a	n/a	n/a	12%
Ordinary shares* *(shares)*	**2,453,806,546**	2,583,412,645	2,070,139,880	1,621,939,880	1,432,339,880
Bank and cash balances (including pledged deposits)	**483,364**	334,996	276,802	230,136	278,403
Cash per share* (restated) *(RMB)*	**0.20**	0.13	0.13	0.14	0.20
Total assets	**1,439,221**	1,343,494	610,823	586,002	879,834
Net asset value	**370,470**	570,527	527,181	514,696	788,483
Net asset value per share* (restated) *(RMB)*	**0.15**	0.22	0.25	0.32	0.55
Inventory turnover days	**115 days**	69 days	78 days	96 days	56 days
Debtors turnover days	**40 days**	40 days	58 days	85 days	43 days
Creditors turnover days	**23 days**	19 days	24 days	30 days	11 days

* The figures for 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 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 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 34 years, 22 years and 23 years, respectively. In 2001, the Group was accredited by the China Nonferrous Metals Association as the largest zirconium chemicals exporter in the PRC.

Corporate Profile *(continued)*

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.


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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 2012 to the shareholders of the Company.

Affected by the European debt crisis and the slowdown of the global economic growth, the global economy was still undergoing a significant adjustment and recovering at a slow pace in 2012. The sluggish Euro region economy restrained the rebound of the Japanese exports given Europe is one of the major export market for Japanese products. Japan's economic growth was further impacted by its weak local demand due to the aging and declining population, as well as its escalating territorial dispute with China which damaged the close trade and economic ties between the two countries. All these unfavorable factors together with the effect of the "financial cliff" crisis in the United States hit the manufacturing and export industries hardly in 2012, especially those in China.

Facing the unfavorable economic environment in the export markets, the overall operating results of the Group was not satisfactory in current year. Consolidated turnover of the Group had turned from a positive growth in 2011 to a negative growth in 2012, which was resulted from a decrease in turnover reported by both the zirconium chemicals business and petrochemicals business as compared to prior year. Decrease in sales income of zirconium chemicals was due partly to the decreasing export orders for the Group's zirconium chemicals and partly to the continuously decreasing overall market selling price of zirconium chemicals throughout the year of 2012. The effect of pricing pressure was further enlarged by various factors causing a declining profit margin, such as increasingly stringent requirements on environmental protection and energy conservation in China, increase in labor cost and excessive production capacity for manufacturing industry due to weak market demand.

The financial crisis in Europe and the United States also had an impact on the petrochemical market. The domestic price of major petrochemical products, that is gasoline and diesel, started to contract since the second quarter of 2012. The move came in line with lower crude prices on the global market since the end of first quarter in 2012. International crude prices kept dropping as a sluggish economic outlook for the Euro zone and the United States triggered fears of decline in global oil demand. The volatility of domestic oil prices in China had inevitably weakened the demand for petrochemical products and its storage facilities and also reduced the income of petrochemical trading business. Moreover, the Group's petrochemical storage facilities were due for major repair and maintenance works in 2012. Therefore, the Group had scheduled to empty the oil tanks by phases in order to allow the repair and maintenance being carried out under a safe environment. As a result, the Group's petrochemical segment reported a year-to-year decrease in 2012 on both turnover and net profit.

In 2013, it is expected that the global economy will keep on post-crisis adjustment since there are many complicated factors and uncertainties in the global market and the effect of financial crisis tends to be extending and long-lasting. Facing such increasingly complicated external environment, the Group will proactively respond to market changes, continue to leverage on its strengths in zirconium chemical industry and finetune and optimize its product mix. The Group will also seek opportunities in expanding into new business coverage, add value to the business and improve profitability, so as to bring rewarding returns to our shareholders.

Finally, I would like to thank all our staff for their valuable contributions and support, in particular on exercising prudent expenses control measures to adjust for the tough economic environment. On behalf of the Board, I would also like to express sincere gratitude to our shareholders, customers, suppliers and business partners for your long-term support.

Yang Xin Min
Chairman

BUSINESS REVIEW

During the year, the extended effect of the Europe debt crisis hit hardly on the global economy. Exports of US and Japan were unfavorably affected by the poor economic performance in the Euro zone. The underperformance of exports trade held back the recovery of the economy in these two countries. Facing the uncertainties and unstable environment in these major export markets, the Group's zirconium chemicals business was unable to continue the growth as in prior year and reported a decrease in sales volume in 2012. The Group's sales income was further impacted by the unexpected drop in the market selling price of various zirconium chemical products.

Furthermore, the Group has to deal with the challenges on the production side. The profitability of the Group was further driven down by the under-capacity production in both the Yixing and Binhai zirconium production plants. The low production of Yixing plant in the fourth quarter of 2012 was a result of the local government's temporary restrictions on industrial production activities near the riverbank in order to keep the river water clean for local people's consumption. This was because of the drought in Northern China in recent years which kept the water volume in reservoirs at near record lows. Certain cities, including Yixing city, had to use river water for daily consumption including drinking and cooking. Since the Group's zirconium production plant was located near the upstream of the river in Yixing, its production was also subject to the local government's temporary restriction measures. On the other hand, the license approval process for Binhai zirconium production plant was processing slowly. The local government authorities were under pressure in approving industrial projects, in particular on those related to chemicals production, after a series of large-scale environmental protests related to industrial projects in China in 2012. The local government authority was unable to provide the Company with a confirmed schedule for the completion of the licensing process. As a result, the Binhai plant could only operate at the trial production volume and per unit cost of production was higher than the normal level due to materially under-capacity production. Since Binhai's product, zirconium oxychloride, was the feedstock for the production of medium and high-end zirconium chemicals at the Yixing plant, the high production cost issue had also eaten up the profit margin of the Yixing products. As a result, the Group reported a negative gross margin again in current year.

In the year under review, the rechargeable batteries business reported a sales drop by approximately 2% and continued to generate a net profit. It is expected that the batteries segment will continue to contribute positively to the Group's sales and cashflow in the years to come.

During the current year, the Group continues to suspend the operation of its zircon processing plant in Indonesia as there was minimal progress in the joint venture's attempt in acquiring mining rights in Kalimantan area. Given the unstable political environment in Indonesia, the negotiation process is expected to be lengthy and difficult. Once the mineral supply (raw material for the zircon processing plant) is secured, the Group will consider resuming the operation of the zircon processing plant.

The Group's petrochemicals storage and trading businesses were also facing a challenging year in 2012. Due to the decrease in domestic oil price in China resulted from various external factors, demand for petrochemical storage facilities had decreased because most of the market participants were worrying that the price would keep dropping and thus were unwilling to keep too much stock of petrochemical products. Furthermore, the Group's petrochemicals storage facilities were under major repair and maintenance works in current year. Such works would need to be carried out every three to five years. As a result, certain oil tanks were emptied for the carrying out of maintenance works which led to a reduction in petrochemical storage income in current year. The operating profit of petrochemical storage and trading businesses had also dropped as compared to last year. The repair and maintenance works on some oil tanks had been completed in the first quarter of 2013 and leases of these tanks are expected to resume gradually.

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.

OUTLOOK

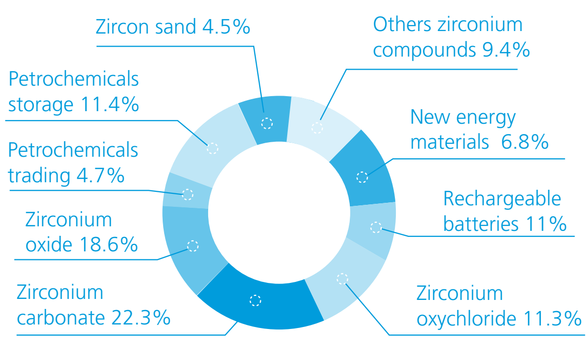
2012 was another challenging year for manufacturing industry and it is anticipated that the global economy would at least take another few years to recover. As the world financial system is fully connected now, the Euro zone crisis has far-reaching consequences that extend beyond their borders to the world as a whole. The fundamental problem of high government debt in the European region remains in place. As a result, the chance of a further economic shock to the Euro zone, and the world economy as a whole, is still a possibility and it is expected to remain so for several years. Facing the unstableness and uncertainties in the global market as well as the slow economic growth in the countries where the Group's major export markets are located, the Board expected that the operating environment will continue to be challenging and difficult in the years to come. The management of the Group will remain prudent and cautious in the executing its business strategies. As always, we will continue to be on the lookout for lucrative opportunities to further expand and diversify our business, with the ultimate aim of bringing greater value to our shareholders in the long run.

FINANCIAL REVIEW

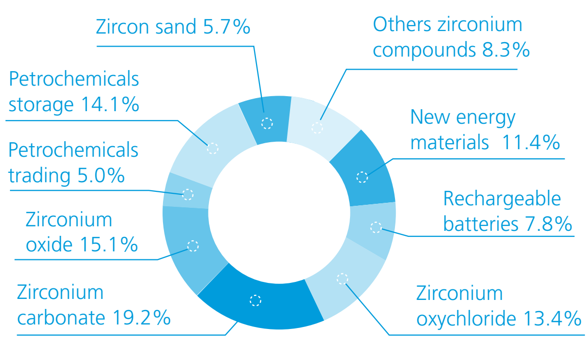
During the year ended 31 December 2012, the Group's consolidated turnover was approximately RMB156,577,000, represented a decrease of approximately RMB67,278,000 or 30% drop as compared to prior year. The decrease in turnover was mainly resulted from (i) the decrease in export sales of zirconium chemicals and the unexpected drop in market selling prices of zirconium chemicals during the year; (ii) the reduction in petrochemicals storage income due to the decrease in market demand for petrochemicals storage facilities and the temporary closure of certain oil tanks of the Group for major repair and maintenance works. The business of rechargeable batteries remained stable and it continued to generate net profits. Yet the overall operating results for the Group were not satisfactory in current year. The consolidated net loss for the year was approximately RMB200,360,000, which mainly resulted from the impairment loss recognized for non-current assets and goodwill of approximately RMB146,244,000 and RMB20,217,000 respectively.

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 2012 and 31 December 2011:



2012



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 approximately RMB103,396,000 (2011: approximately RMB136,995,000), represented a decrease of approximately 24.5%. Sales of zirconium oxides and zirconium carbonate remained as the core, which in aggregate contributed to approximately 40.9% (2011: approximately 34.3%) of the consolidated turnover.

Sales of new energy materials and rechargeable batteries both reported a negative growth in current year. Sales of new energy materials was approximately RMB10,758,000 (2011: approximately RMB25,586,000), represented approximately 6.8% of consolidated turnover and a decrease of approximately 58% as compared to prior year. Sales of rechargeable batteries was approximately RMB17,172,000 (2011: approximately RMB17,532,000), represented approximately 11% of consolidated turnover and a decrease of approximately 2% as compared to prior year.

The Group's petrochemicals storage and trading businesses reported a drop in turnover and net profit in 2012 as compared to prior year. Total revenue of petrochemicals storage and petrochemicals trading were approximately RMB17,872,000 (2011: approximately RMB31,581,000) and approximately RMB7,348,000 (2011: approximately RMB11,150,000), respectively, each represented approximately 11.4% and 4.7% of the total turnover. The decrease in petrochemicals storage income was mainly resulted from the decrease in domestic oil prices in China which led to the decrease in demand for petrochemicals storage facilities. In addition, the oil tanks of the Group were scheduled for major maintenance works in 2012. For safety reason, the oil tanks must be emptied when the repairing and maintenance works were performed. Therefore the Group stopped the leases of certain oil tanks from May 2012 onwards such that the maintenance works could be performed in safe environment. This reduced the Group's petrochemicals storage income. The decline in petrochemicals trading income was mainly due to the unfavorable change in the market price of petrochemical products in China, which reduced the trading volume and hence the income of the Group's petrochemicals trading business.

Gross Profit and Gross Margin

The Group reported a consolidated gross loss for the year of approximately RMB2,744,000 (2011: gross profit of approximately RMB38,773,000). The significant decrease in gross profit mainly resulted from the gross loss generated by the zirconium chemical business. The gross profit for petrochemical business had dropped from approximately RMB31,616,000 in 2011 to approximately RMB12,391,000 in 2012, which was resulted from the significant decrease in petrochemicals storage income in current year. Since the cost of petrochemicals storage business was rather fixed and would not reduce even if the storage rental income dropped, the reduction in storage rental income would lead to a significant drop of gross profit directly. For the rechargeable batteries business, gross profit for the year was approximately RMB4,767,000, represented a decrease of approximately RMB1,593,000 or 25%. The average gross margin of the Group for current year was approximately -2% (2011: approximately 17%).

Selling expenses and Administrative Expenses

Selling expenses had decreased from approximately RMB4,786,000 in 2011 to approximately RMB3,858,000 in 2012, mainly due to the contraction of sales activities for zirconium chemical business in current year. The management continued to implement stringent cost control measures over the zirconium and batteries businesses which had successfully reduced the selling expenses of these businesses. Petrochemical business did not incur any selling expenses.

Total administrative expenses had decreased from approximately RMB40,979,000 in 2011 to approximately RMB29,506,000 in 2012, represented a reduction of approximately RMB11,473,000. One major reason for the decrease was that in 2011, the Group had recognised the fair value of the share options granted (including both staff and consultants) in 2011 as administrative expenses. Total amount recognised in 2011 were approximately RMB9,717,000. No such expense was recognised in 2012 because the Company did not grant any share options during the year. The balance of the decreased amount was mainly a result of the control measures implemented by the Company on monitoring the expenses.

Capital Expenditure

The capital expenditures for the year ended 31 December 2012 and 2011 were approximately RMB21,918,000 and RMB50,433,000, respectively. The capital expenditures for both 2012 and 2011 was mainly for the payment of properties, plant and equipment of Binhai zirconium production plant and certain modification or upgrading works carried out for other subsidiaries during the year.

Liquidity and Financial Resources

As at 31 December 2012, the Group's bank and cash balances were approximately RMB20,364,000 (2011: approximately RMB66,546,000). The net cash outflow during the year was mainly for the capital expenditures during the year. As at 31 December 2012, the Group also had a pledged bank deposits balance of RMB445,000,000 (2011: RMB251,450,000), which was pledged to the bank by the Company's subsidiary engaged in petrochemicals 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 approximately RMB483,364,000 (at 31 December 2011: approximately RMB334,996,000). This indicated that the Group maintained a strong financial position in current year.

As at 31 December 2012, the Group had interest-bearing bank borrowings of RMB40,000,000 (2011: RMB20,000,000) and outstanding bills payable of RMB855,000,000 (2011: RMB551,450,000), all related to the petrochemicals business. The loan was repayable within one year and all denominated in Renminbi. The loan and bills facilities granted by the banks were secured by (i) charge over certain petrochemicals storage facilities of the Group; (ii) guarantees provided by Shanghai Bokun Investments Co., Ltd., a company beneficially owned and controlled by Mr. Wang Jia Wei ("Mr. Wang") a non-executive director and shareholder of the Company; and (iii) personal guarantees provided by Mr. Wang and Ms. Liu Chao Yin, an associate of Mr. Wang.

As at 31 December 2012, the Company had an outstanding convertible bond which has a face value of HK$65,000,000 and can be converted into a maximum of 144,444,444 ordinary shares of the Company at a conversion price of HK$0.45 per share. The convertible bond will be matured on 6 January 2016.

The Group's trade receivables turnover days was around 40 days in 2012, which was the same as prior year. As always, the management monitored closely on the receivables collection process and maintained strict controls over its outstanding receivables. 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 2012 increased to approximately RMB43,341,000 (2011: approximately RMB32,500,000), which mainly represented the net effect of the higher inventory level of raw materials and lower balance of finished products. Inventory turnover days increased from approximately 69 days to 115 days because of the significant increase in year-end balance of zircon sand inventory (raw materials). Management will continue to closely monitor the inventory level.

As at 31 December 2012, the Company had balances in advance payments to suppliers — petrochemical suppliers of approximately RMB463,238,000 (2011: approximately RMB328,545,000) and bills payable of RMB855,000,000 (2011: RMB551,450,000). 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 2012, no options were granted or exercised. During the year ended 31 December 2011, options were exercise to subscribe for 17,000,000 shares of the Company at a total consideration of HK$11,560,000 (equivalent to approximately RMB9,774,000).

On 30 July 2012, the Company cancelled 129,606,099 ordinary shares (the "Cancellation Shares"), which was issued to Mr. Wang Xiao Ping Peter ("Mr. Peter Wang") to settle part of the consideration for the acquisition of Haney Holdings Limited in November 2011. Due to the alleged breach of certain warranties by the vendor, the Company had resolved to cancel the acquisition and a deed of settlement ("Deed of Settlement") had been signed by the Company with Mr. Peter Wang on 25 May 2012. In an extraordinary general meeting held by the Company on 30 July 2012, the shareholders of the Company passed the special resolutions which approved the Deed of Settlement and the transactions contemplated therein, including, among others, the cancellation of the Cancellation Shares surrendered by Mr. Peter Wang at nil consideration to the Company. The cancellation of both the Cancellation Shares and the acquisition of Haney Holdings Limited took effect from 30 July 2012. After the Cancellation Shares were cancelled, the total number of issued shares for the Company had decreased from 2,583,412,645 shares to 2,453,806,546 shares.

As at 31 December 2012, the total issued share capital of the Company was HK$122,690,327 (approximately equivalent to RMB118,041,000) divided into 2,453,806,546 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 States Dollars ("US$") 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 2012, the Group had no contingent liabilities (2011: Nil).

Pledge of Assets

As at 31 December 2012, the following assets of the Group were pledged as securities, among others, for the banking facilities granted by its bankers:

(i) bank deposit of RMB445,000,000 (2011: RMB251,450,000); and

(ii) the petrochemicals storage facilities of the Group with a carrying value of approximately RMB70,921,000 (2011: Not applicable) as at 31 December 2012.

Human Resources

As at 31 December 2012, the Group had a total of approximately 284 employees (2011: approximately 324 employees). Total staff costs (including directors' emoluments) for the year was approximately RMB16,764,000 (2011: RMB23,180,000), representing approximately 11% of the Group's turnover (2011: approximately 10%). The significant decrease in staff costs in current year because in 2011, the fair value of the share options granted (amounted to approximately RMB8,242,000) was recognised as staff cost in accordance with the applicable accounting standards. Whereas in 2012, there was no such expense recognised because the Company did not grant any share options in 2012. The reduction in total number of employees was mainly due to the reduction in production workers in current year.

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.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yang Xin Min, aged 63, 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 44, 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 54, 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. Fang Guo Hong, aged 47, 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.

Mr. Li Fu Ping, aged 43, senior economist. Mr. Li had resigned as an excutive director of the Company on 10 September 2012 but maintained his management role in the Company's subsidiary. 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.

NON-EXECUTIVE DIRECTOR

Mr. Wang Jia Wei, aged 57, 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 45, was appointed as an independent non-executive director of the Company in November 2001. He is the Chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. In 2011, Dr. Cheng graduated with a Doctor of Business Administration from the City University of Hong Kong with research area in "Independent Non-Executive Director ("INED") and Corporate Governance". He is one of few practicing CPA in Hong Kong with DBA degree of research area concentrated in INED study. 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 had 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 57, 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 41, 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 China Uptown Group Company Limited (Stock code: 2330) since November 2006, and was the independent non-executive director of Sun International Resources Limited (Stock code: 8029) during the period from September 2008 to August 2011. Mr. Poon was the executive director and non-executive director of Celebrate International Holdings Limited (previously known as Hong Kong Life Group Holdings Limited, Stock code: 8212) during the period from October 2010 to July 2011 and from July 2011 to December 2011, respectively.

SENIOR MANAGEMENT

Ms. Li Mei Kuen, aged 44, 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 financial reporting.

Ms. Wu Xi Hui, aged 44, 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 45, 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 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 four 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. Fang Guo Hong Mr. Li Fu Ping (resigned on 10 September 2012)
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 16 to 18.

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, two 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	2/2
Ms. Huang Yue Qin	2/2
Mr. Zhou Quan	2/2
Mr. Fang Guo Hong	2/2
Mr. Li Fu Ping (resigned on 10 September 2012) *(Note 1)*	2/2
Mr. Wang Jia Wei	1/2
Dr. Cheng Faat Ting Gary	2/2
Prof. Ji Chang Ming	2/2
Mr. Poon Lai Yin Michael	2/2

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 three 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 2011;

— 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 RSM Nelson Wheeler as the Company's external auditors for 2013. The recommendation will be put forward for the approval of the shareholders of the Company at the Annual General Meeting to be held on 30 May 2013.

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 2012, the Company's external auditors received approximately RMB1,396,000 for annual audit service and nil for non-audit services 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.

The Company did not have any 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 caliber 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	3/3	1/1	1/1
Prof. Ji Chang Ming	3/3	1/1	1/1
Mr. Poon Lai Yin Michael	3/3	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 39 to 40.

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.

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 2011 and Interim Report 2012 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 2012 (the "Year") are set out in the consolidated statement of comprehensive income on pages 41 to 42.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

The register of members of the Company will be closed from 28 May 2013 (Tuesday) to 30 May 2013 (Thursday), 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 30 May 2013, 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 27 May 2013 (Monday):

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 16 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 31 and 34 to the financial statements respectively.

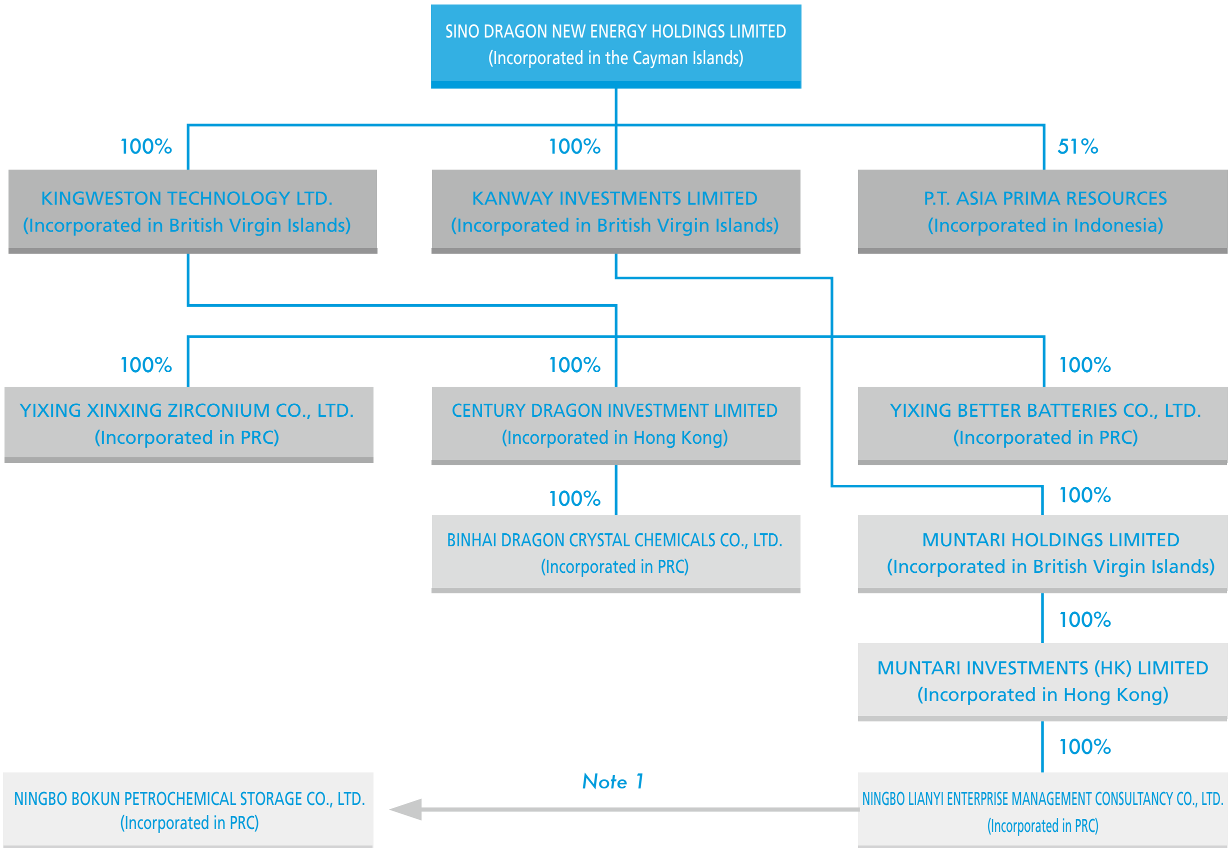
RESERVES

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 2012 amounted to approximately RMB329,824,000 (2011: approximately RMB504,313,000).

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 16 to 18.

Executive Directors

Mr. Yang Xin Min, Chairman and Managing Director
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Fang Guo Hong
Mr. Li Fu Ping (resigned on 10 September 2012)

Non-Executive Director

Mr. Wang Jia Wei, 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 2012, 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				Approximate
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	24.21%
Huang Yue Qin	Beneficial	—	600,000	—	600,000	0.02%
Zhou Quan	Beneficial	240,000	600,000	—	840,000	0.03%
Li Fu Ping (resigned on 10 September 2012)	Beneficial	144,000	600,000	—	744,000	0.03%
Fang Guo Hong	Beneficial	21,068,000	22,480,000	—	43,548,000	1.77%
Wang Jia Wei	Beneficial	210,000,000	600,000	144,444,444	355,044,444	14.47%
Cheng Faat Ting Gary	Beneficial	200,000	200,000	—	400,000	0.016%
Ji Chang Ming	Beneficial	—	400,000	—	400,000	0.016%
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 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2012, 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				Approximate
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	24.21%
Wang Jia Wei	Beneficial	210,000,000	600,000	144,444,444	355,044,444	14.47%

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 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.

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 can 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 2012, no Options (2011: Nil) have been granted under the Old Scheme and no Options (2011: 32,680,000 Options) 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 2011**	**Granted during the year**	**Exercised or Expired during the year**	**Outstanding as at 31 December 2012**
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				27,280,000	—	—	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 2011	Granted during the year	Exercised or Expired during the year	Outstanding as at 31 December 2012
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	34,000,000	—	(34,000,000)	—
A consultant	21 July 2011	21 July 2011 to 31 March 2012	HK$0.86	5,000,000	—	(5,000,000)	—
Subtotal				39,600,000	—	(39,000,000)	600,000
Grand Total				67,480,000	—	(39,000,000)	28,480,000

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, the Group carried out certain related parties transactions, details of which are set out in note 41 to the financial statements.

These transactions fall within the de minimis provision under Rule 14A.31(2) of the Listing Rules because they were on normal commercial terms and the applicable percentage ratio was less than 0.1%. Accordingly, they were exempted from the reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

Save as disclosed above, the Group had no other transactions which were 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 19 to 25.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 9.9% and 32.8% 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 39.5% and 65.9% 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 2012, the Group made RMB370,000 (2011: RMB350,000) donations to charitable organisations and charity funds in the PRC.

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

There were no material non-adjusting events after the reporting period.

AUDITORS

RSM Nelson Wheeler was appointed as auditors of the Company on 20 December 2012 upon the resignation of KPMG.

RSM Nelson Wheeler retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler 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

25 March 2013

Independent Auditor's Report

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 (collectively referred to as the "Group") set out on pages 41 to 124, which comprise the consolidated and Company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 issued by the International Accounting Standards Board 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 and to report our opinion 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 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 2012, and of the Group's results 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.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

25 March 2013

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2012

	Note	**2012** **RMB'000**	2011 RMB'000
Turnover	6	**156,577**	223,855
Cost of goods sold		**(159,321)**	(185,082)
Gross (loss)/profit		**(2,744)**	38,773
Other income	7	**31,610**	68,348
Selling expenses		**(3,858)**	(4,786)
Administrative expenses		**(29,506)**	(40,979)
Other operating expenses		**(542)**	(3,287)
Impairment of non-current assets	16(c), 19	**(146,244)**	(53,777)
Impairment of goodwill	19	**(20,217)**	(235,356)
Loss from operations		**(171,501)**	(231,064)
Finance costs	9	**(8,994)**	(7,190)
Loss before tax		**(180,495)**	(238,254)
Income tax (expense)/credit	10	**(19,865)**	4,154
Loss for the year	11	**(200,360)**	(234,100)
Other comprehensive income for the year, net of tax			
Exchange differences on translating foreign operations		**301**	3,406
Total comprehensive income for the year		**(200,059)**	(230,694)

Consolidated Statement of Comprehensive Income *(continued)*

For The Year Ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Loss for the year attributable to:			
Owners of the Company		**(200,362)**	(234,097)
Non-controlling interests		**2**	(3)
		(200,360)	(234,100)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(200,061)**	(230,691)
Non-controlling interests		**2**	(3)
		(200,059)	(230,694)
Loss per share	15		
Basic *(cents)*		**(8.17)**	(9.75)
Diluted *(cents)*		**(8.18)**	(10.78)

Consolidated Statement of Financial Position

At 31 December 2012

	Note	**2012** **RMB'000**	2011 RMB'000
Non-current assets			
Property, plant and equipment	16	**131,057**	174,804
Construction in progress	17	**248**	24,967
Prepaid land lease payments	18	**67,404**	61,082
Goodwill	19	**—**	20,217
Intangible assets	20	**102,958**	167,302
Long-term prepayments	22	**983**	26,995
Deferred tax assets	32	**97,421**	116,744
		400,071	592,111
Current assets			
Inventories	23	**43,341**	32,500
Prepaid land lease payments	18	**1,877**	1,597
Trade and other receivables	24	**506,071**	379,328
Current tax receivables		**627**	—
Due from a director	25	**3,870**	2,962
Pledged bank deposits	26	**445,000**	251,450
Non-pledged bank deposits with more than three months to maturity	26	**18,000**	17,000
Bank and cash balances	27	**20,364**	66,546
		1,039,150	751,383
Current liabilities			
Trade and other payables	28	**910,390**	612,693
Due to directors	29	**1,828**	1,982
Due to related parties	29	**6,538**	16,138
Bank loans	30	**40,000**	20,000
Current tax liabilities		**24,141**	21,515
		982,897	672,328

Consolidated Statement of Financial Position *(continued)*

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Net current assets		**56,253**	79,055
Total assets less current liabilities		**456,324**	671,166
Non-current liabilities			
Derivative financial instruments	31	**1,622**	17,440
Convertible bonds	31	**38,778**	35,391
Deferred tax liabilities	32	**45,454**	47,808
		85,854	100,639
NET ASSETS		**370,470**	570,527
Capital and reserves			
Share capital	34	**118,041**	123,332
Reserves	35(a)	**252,431**	447,199
Equity attributable to owners of the Company		**370,472**	570,531
Non-controlling interests		**(2)**	(4)
TOTAL EQUITY		**370,470**	570,527

Approved by the Board of Directors on 25 March 2013

Yang Xin Min
Director

Huang Yue Qin
Director

Statement of Financial Position of the Company

At 31 December 2012

	Note	**2012** **RMB'000**	2011 RMB'000
Non-current assets			
Investments in subsidiaries	21	**—**	—
Current assets			
Other receivables	24	**11,541**	11,643
Due from subsidiaries	21	**395,832**	517,575
Due from a director	25	**453**	—
Bank and cash balances	27	**195**	1,377
		408,021	530,595
Current liabilities			
Accruals and other payables	28	**1,106**	1,850
Due to directors	29	**153**	1,796
		1,259	3,646
Net current assets		**406,762**	526,949
Total assets less current liabilities		**406,762**	526,949

Statement of Financial Position of the Company *(continued)*

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Derivative financial instruments	31	**1,622**	17,440
Convertible bonds	31	**38,778**	35,391
		40,400	52,831
NET ASSETS		**366,362**	474,118
Capital and reserves			
Share capital	34	**118,041**	123,332
Reserves	35	**248,321**	350,786
TOTAL EQUITY		**366,362**	474,118

Approved by the Board of Directors on 25 March 2013

Yang Xin Min
Director

Huang Yue Qin
Director

	Attributable to owners of the Company										
	Share capital *RMB'000*	Share premium account *RMB'000* *(note 35 (c)(i))*	Statutory reserve *RMB'000* *(note 35 (c)(iii))*	Share-based payment reserve *RMB'000* *(note 35 (c)(ii))*	Foreign currency translation reserve *RMB'000* *(note 35 (c)(iv))*	Amount receivable in respect of consideration shares issued at acquisition *RMB'000*	Accumulated losses *RMB'000*	Merger reserve *RMB'000* *(note 35 (c)(v))*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2011	101,850	416,702	92,749	12,400	(6,265)	–	(79,169)	(11,085)	527,182	(1)	527,181
Total comprehensive income for the year	–	–	–	–	3,406	–	(234,097)	–	(230,691)	(3)	(230,694)
Issue of consideration shares related to acquisition of Muntari Holdings Limited *(note 42)*	9,464	157,107	–	–	–	–	–	–	166,571	–	166,571
Issue and anticipated cancellation of consideration shares related to acquisition of Haney Holdings Limited *(note 34 (a))*	5,291	77,984	–	–	–	(83,275)	–	–	–	–	–
Shares issued upon conversion of convertible bonds *(note 42)*	6,008	81,970	–	–	–	–	–	–	87,978	–	87,978
Shares issued under share option scheme *(note 34(c))*	719	13,166	–	(4,111)	–	–	–	–	9,774	–	9,774
Equity-settled share-based payments	–	–	–	9,717	–	–	–	–	9,717	–	9,717
Appropriation to statutory reserve	–	–	2,703	–	–	–	(2,703)	–	–	–	–
Changes in equity for the year	21,482	330,227	2,703	5,606	3,406	(83,275)	(236,800)	–	43,349	(3)	43,346
At 31 December 2011 and 1 January 2012	**123,332**	**746,929**	**95,452**	**18,006**	**(2,859)**	**(83,275)**	**(315,969)**	**(11,085)**	**570,531**	**(4)**	**570,527**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**301**	**–**	**(200,362)**	**–**	**(200,061)**	**2**	**(200,059)**
Exchange alignment	**–**	**–**	**–**	**–**	**2**	**–**	**–**	**–**	**2**	**–**	**2**
Cancellation of consideration shares related to acquisition of Haney Holdings Limited *(note 34(d))*	**(5,291)**	**(77,984)**	**–**	**–**	**–**	**83,275**	**–**	**–**	**–**	**–**	**–**
Lapse of share options granted in prior years	**–**	**–**	**–**	**(9,697)**	**–**	**–**	**9,697**	**–**	**–**	**–**	**–**
Changes in equity for the year	**(5,291)**	**(77,984)**	**–**	**(9,697)**	**303**	**83,275**	**(190,665)**	**–**	**(200,059)**	**2**	**(200,057)**
At 31 December 2012	**118,041**	**668,945**	**95,452**	**8,309**	**(2,556)**	**–**	**(506,634)**	**(11,085)**	**370,472**	**(2)**	**370,470**

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(180,495)**	(238,254)
Adjustments for:			
Depreciation		**13,068**	12,351
Amortisation of prepaid land lease payments		**1,714**	1,714
Amortisation of intangible assets		**8,280**	8,769
Bank interest income		**(11,858)**	(5,544)
Interest income on prepayment to suppliers		**(2,160)**	(3,900)
Interest expenses on cash advance from related party		**472**	—
Interest expenses on bank loans wholly repayable within five years		**2,720**	2,996
Other finance costs		**2,205**	—
Interest expenses on convertible bonds measured at amortised cost		**3,597**	4,194
Equity-settled share-based payments		**—**	8,242
Equity-settled share-based payments to third party consultants		**—**	1,475
(Reversal of allowance)/allowance for inventories		**(87)**	2,581
Allowance for trade receivables		**1,788**	—
Allowance for other receivables		**85**	4,194
Impairment on goodwill		**20,217**	235,356
Impairment on non-current assets		**146,244**	53,777
Write off of property, plant and equipment		**1,000**	—
Changes in carrying amount of liability component and fair value of derivative component of convertible bonds		**(15,753)**	(51,264)
Foreign exchange gains		**(39)**	(39)
Operating (loss)/profit before working capital changes		**(9,002)**	36,648
Increase in inventories		**(10,754)**	(5,490)
Increase in trade and other receivables		**(129,160)**	(596)
Increase in amount due from a director		**(908)**	(2,099)
Increase/(decrease) in trade and other payables		**298,177**	(61,763)
(Decrease)/increase in amounts due to directors		**(154)**	1,598
(Decrease)/increase in amounts due to related parties		**(9,600)**	15,000
Cash generated from/(used in) operations		**138,599**	(16,702)
Income taxes paid		**(897)**	(15,853)
Net cash generated from/(used in) operating activities		**137,702**	(32,555)

	Note	**2012** **RMB'000**	2011 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase)/decrease in pledged bank deposits		**(193,550)**	48,550
Acquisition of subsidiaries, net of cash acquired	42	**—**	(94,240)
Purchases of property, plant and equipment		**(18,483)**	(16,743)
Payment for construction in progress		**(2,339)**	(33,621)
Payment for prepaid land lease payments		**(1,096)**	—
Decrease/(increase) in long-term prepayments		**3,832**	(48,975)
Interests received		**14,018**	9,444
Increase in non-pledged bank deposits with more than three months to maturity		**(1,000)**	(17,000)
Net cash used in investing activities		**(198,618)**	(152,585)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(60,000)**	(49,000)
Bank loans raised		**80,000**	20,000
Proceeds from exercise of share options		**—**	9,774
Interests paid		**(5,397)**	(2,996)
Net cash generated from/(used in) financing activities		**14,603**	(22,222)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(46,313)**	(207,362)
Net effect of foreign exchange rate changes		**131**	(2,894)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**66,546**	276,802
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**20,364**	66,546
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	27	**20,364**	66,546

1. GENERAL INFORMATION

The Company was incorporated on 18 July 2000 in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands. The address of its principal place of business is No. 68 Hongxin Road, Xushe Town, Yixing City, Jiangsu Province, the People's Republic of China ("PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 21 to the financial statements.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

Changes in the Company's ownership investments in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity investments in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity investments in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Business combination and goodwill *(continued)*

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy 3(r) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB") which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Foreign currency translation *(continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual depreciation rates are as follows:

Buildings	3.33%
Machinery and equipment	4.55% — 25%
Office equipment and fixtures	12.5% — 25%
Motor vehicles	12.5% — 25%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Amortisation of intangible assets is charged to profit or loss on a straight line basis over their estimated useful lives as follows:

Technical know-how	5 years
Operating license	22 years
Backlog	1 year and 5 months

(f) Operating leases

(i) The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(i) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Convertible bonds

Convertible bonds which entitle the holder to convert the loans into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and derivative components of the convertible loans based on the allocation of proceeds to the liability and derivative components on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Financial liabilities and equity instruments *(continued)*

(iii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Sales of goods

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iii) Commission income

Commission income is recognised when the service is rendered.

(iv) Storage service income

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Revenue recognition *(continued)*

(v) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received. Government grants relating to income are deferred and recognised in the profit or loss over the period to match them with the costs they are intended to compensate.

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

Obligation for contributions to the PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(n) Share-based payments

The Group issued equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(q) Related parties

A related party is a person or entity that is related to the Group.

(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 Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Related parties *(continued)*

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

(i) The entity and the Company 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.

(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. If the Group is itself such a plan, the sponsoring employers are also 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).

(r) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets and intangible assets except goodwill, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Impairment of assets *(continued)*

Recoverable amount is the higher of 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 expenditures 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 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 is remote.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was fully impaired. Details of the impairment loss calculation are provided in note 19 to the financial statements.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Allowance for trade and other receivables

The Group makes allowance for trade and other receivables based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(e) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

(f) Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates.

(g) Fair value of derivative component

As disclosed in note 31 to the financial statements, the fair values of the derivative component of the convertible bond at the date of issue and the end of the reporting period were determined using binomial models. Application of binomial models requires the Company to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative component, the expected volatility of the share values of the Company and the potential dilution in the share values of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative component in the period in which such determination is made.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(h) Intangible assets and amortisation

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. The useful live of intangible assets are assessed to be either finite or indefinite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with a finite useful life are reviewed by the management at least at the end of each reporting period.

(i) 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.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB and US$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Foreign currency risk *(continued)*

At 31 December 2012, if the RMB had weakened 5 per cent against the US$ with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB226,000 (2011: approximately RMB414,000) lower, arising mainly as a result of the foreign exchange difference on bank and cash balances denominated in US$.

If the RMB had strengthened 5 per cent against the US$ with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB226,000 (2011: approximately RMB414,000) higher, arising mainly as a result of the foreign exchange difference on bank and cash balances denominated in US$.

(b) Credit risk

The carrying amount of the pledged bank deposits, bank and cash balance, trade and other receivables included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to Group's financial assets.

(i) Trade and other receivables

In respect of the petrochemical business which was acquired last 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-customers. 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 on an ongoing basis.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

(i) Trade and other receivables *(continued)*

At the end of the reporting period, the Group has concentration of credit risk as approximately 19% (2011: approximately 33%) and approximately 67% (2011: approximately 75%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors as at 31 December 2012 respectively. The Group does not hold any collateral over these balances.

(ii) Deposits with banks and bank and cash balances

The credit risk on pledged bank deposits and cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk *(continued)*

The maturity analysis of financial liabilities is as follows:

	The Group		
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2012			
Trade and other payables	**910,390**	**—**	**—**
Bank loans	**40,900**	**—**	**—**
Due to directors	**1,828**	**—**	**—**
Due to related parties	**6,538**	**—**	**—**
Convertible bonds	**—**	**—**	**52,268**
At 31 December 2011			
Trade and other payables	612,693	—	—
Bank loans	21,508	—	—
Due to directors	1,982	—	—
Due to related parties	16,138	—	—
Convertible bonds	—	—	52,674

	The Company		
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2012			
Other payables	**1,106**	**—**	**—**
Due to directors	**153**	**—**	**—**
Convertible bonds	**—**	**—**	**52,268**
At 31 December 2011			
Other payables	1,850	—	—
Due to directors	1,796	—	—
Convertible bonds	—	—	52,674

5. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits. These deposits bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2012, if interest rates at that date had been 100 basis points higher/ lower with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB155,000 lower/higher (2011: approximately RMB646,000 lower/higher), arising mainly as a result of higher/lower interest income on bank deposits.

(e) Categories of financial instruments at 31 December

	2012	2011
	RMB'000	*RMB'000*
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**523,516**	378,937
Financial liabilities:		
Financial liabilities measured at amortised cost	**997,994**	702,449

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. TURNOVER

The Group's turnover which represents sales of goods to customers, revenue from commission income and storage service income are as follows:

	2012	2011
	RMB'000	*RMB'000*
Sales of zirconium and new energy materials	**114,185**	163,592
Sales of rechargeable batteries	**17,172**	17,532
Commission income	**7,348**	11,150
Storage service income	**17,872**	31,581
	156,577	223,855

7. OTHER INCOME

	2012	2011
	RMB'000	*RMB'000*
Bank interest income	**11,858**	5,544
Interest income on prepayments to suppliers	**2,160**	3,900
Government grants	**1,528**	6,377
Net foreign exchange gain	**18**	1,246
Change in carrying amount of liability component and fair value of derivative component of convertible bonds *(note 31)*	**15,753**	51,264
Others	**293**	17
	31,610	68,348

Government grants represented subsidies for the support of business development of certain subsidiaries by local government authorities. There are no unfulfilled conditions and other contingencies attached to the receipts of those government grants.

8. SEGMENT INFORMATION

The Group has five reportable segments as follows:

(i) Yixing Xinxing Zirconium Company Limited ("YXZL")

(ii) Yixing Better Batteries Company Limited ("YBBL")

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

(iv) PT Asia Prima Resources ("APR")

(v) Muntari Holdings Limited and its subsidiaries (collectively known as "Muntari Group")

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include corporate income and expenses. Segment assets do not include deferred tax assets, goodwill and corporate assets.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

8. SEGMENT INFORMATION *(continued)*

(i) Information about reportable segment profit or loss, assets and liabilities:

	YXZL		YBBL		BHDC		APR		Muntari Group		Total	
	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*
Year ended 31 December												
Revenue from external customers	**114,154**	162,581	**17,172**	17,532	**–**	–	**–**	–	**25,220**	42,731	**156,546**	222,844
Intersegment revenue	**6,280**	16,192	**–**	–	**38,134**	24,506	**–**	–	**–**	–	**44,414**	40,698
Segment profit/(loss)	**(41,439)**	(9,576)	**82**	1,040	**(36,193)**	(49,202)	**3**	(7)	**14,382**	36,680	**(63,165)**	(21,065)
Interest revenue	**345**	258	**14**	13	**1**	5	**–**	–	**13,658**	9,168	**14,018**	9,444
Interest expense	**–**	176	**–**	–	**–**	–	**–**	–	**5,397**	2,820	**5,397**	2,996
Depreciation and amortisation	**4,911**	3,641	**362**	332	**3,851**	4,751	**–**	–	**4,513**	4,191	**13,637**	12,915
Income tax expense	**–**	–	**–**	–	**–**	100	**–**	–	**2,896**	9,754	**2,896**	9,854
Other material non-cash items:												
Impairment of non-current assets	**27,601**	15,168	**–**	–	**23,960**	38,592	**–**	17	**–**	–	**51,561**	53,777
Additions to segment non-current assets	**4,957**	40,936	**209**	22	**7,786**	9,431	**–**	17	**8,966**	16	**21,918**	50,422
At 31 December												
Segment assets	**355,089**	396,857	**24,237**	22,665	**73,057**	68,672	**–**	–	**1,006,977**	677,842	**1,459,360**	1,166,036
Segment liabilities	**(160,748)**	(161,077)	**(4,654)**	(3,163)	**(203,486)**	(162,908)	**(6)**	(9)	**(911,942)**	(594,292)	**(1,280,836)**	(921,449)

8. SEGMENT INFORMATION *(continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, segment assets and liabilities:

	2012	2011
	RMB'000	*RMB'000*
Revenue		
Total revenue of reportable segments	**200,960**	263,542
Other revenue	**31**	1,011
Elimination of intersegment revenue	**(44,414)**	(40,698)
Consolidated revenue	**156,577**	223,855

	2012	2011
	RMB'000	*RMB'000*
Profit or loss		
Total loss of reportable segments	**(63,165)**	(21,065)
Unallocated amounts:		
Change in carrying amount of liability component and fair value of derivative component of convertible bonds	**15,753**	51,264
Equity-settled share-based payments	**—**	(9,717)
Impairment on goodwill	**(20,217)**	(235,356)
Impairment on property, plant and equipment and intangible assets upon acquisition of subsidiaries	**(94,683)**	—
Unallocated head office and corporate expenses	**(18,183)**	(23,380)
Consolidated loss before tax	**(180,495)**	(238,254)

8. SEGMENT INFORMATION *(continued)*

(ii) Reconciliations of reportable segment revenue, profit or loss, segment assets and liabilities: *(continued)*

	2012	2011
	RMB'000	*RMB'000*
Assets		
Total assets of reportable segments	**1,459,360**	1,166,036
Elimination of intersegment assets	**(210,994)**	(160,163)
Unallocated amounts:		
Deferred tax assets	**97,421**	116,744
Fair value adjustments on property, plant and equipment and intangible assets upon acquisition of subsidiaries, net of impairment	**87,132**	191,231
Goodwill	**—**	20,217
Unallocated head office and corporate assets	**6,302**	9,429
Consolidated total assets	**1,439,221**	1,343,494

	2012	2011
	RMB'000	*RMB'000*
Liabilities		
Total liabilities of reportable segments	**1,280,836**	921,449
Elimination of intersegment liabilities	**(299,670)**	(251,815)
Unallocated amounts:		
Deferred tax liabilities	**45,454**	47,808
Convertible bonds	**38,778**	35,391
Derivative financial instruments	**1,622**	17,440
Unallocated head office and corporate liabilities	**1,731**	2,694
Consolidated total liabilities	**1,068,751**	772,967

8. SEGMENT INFORMATION *(continued)*

(iii) Geographical information:

	2012 **RMB'000**	2011 *RMB'000*
Revenue		
PRC except Hong Kong	**77,800**	118,638
North America	**24,092**	33,427
Europe	**22,992**	28,091
Japan	**17,701**	29,783
Others	**13,992**	13,916
Consolidated total revenue	**156,577**	223,855

In presenting the geographical information, revenue is based on the locations of the customers.

The Group's non-current assets are substantially located in the PRC.

(iv) Revenue from major customers:

	2012 **RMB'000**	2011 *RMB'000*
Customer		
Customer a	**—**	22,441
Customer b	**—**	28,204

Each of the major customers represents a single external customer whose sale transaction amount is 10% or more of the revenue of the Group.

9. FINANCE COSTS

	2012 *RMB'000*	2011 *RMB'000*
Interest expenses on cash advance from related party	**472**	—
Interest expenses on bank loans wholly repayable within five years	**2,720**	2,996
Imputed interest expenses on convertible bonds wholly payable within five years *(note 31)*	**3,597**	4,194
Others	**2,205**	—
	8,994	7,190

10. INCOME TAX EXPENSE/(CREDIT)

	2012 *RMB'000*	2011 *RMB'000*
Current tax - PRC enterprise income tax ("PRC EIT")		
Provision for the year	**3,781**	9,202
(Over)/under-provision in prior years	**(885)**	652
	2,896	9,854
Deferred tax *(note 32)*	**16,969**	(14,008)
	19,865	(4,154)

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.

No provision for Hong Kong Profits Tax is required since the Group has no assessable profits for the years ended 31 December 2012 and 2011.

10. INCOME TAX EXPENSE/(CREDIT) *(continued)*

The new PRC EIT law (the "New Tax Law") passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax for domestic and foreign enterprises at 25%. The new tax law was effective from 1 January 2008.

As a production-oriented foreign investment enterprise ("FIE"), YBBL had kicked off its tax holiday (the "Tax Holiday") under the old PRC EIT regime in 2008. As such, YBBL was exempted from PRC EIT in 2009. The unexpired Tax Holiday enjoyed by FIE established before 16 March 2007 is allowed to continue after implementation of New Tax Law until expiry of the Tax Holiday. As such, the applicable EIT rate of YBBL is 12.5% in years 2010 to 2012 and 25% thereafter.

No PRC EIT provision is required for YXZL and BHDC established and registered in the PRC since they have no assessable profits during the years ended 31 December 2012 and 2011.

Pursuant to the income tax law in Indonesia, APR is subject to entity income tax rate 25%, based on the level of assessable profits earned by the enterprise. No corporate income tax provision has been made as it has no assessable profits for the years ended 31 December 2012 and 2011.

The reconciliation between the income tax expense/(credit) and the product of loss before tax multiplied by the weighted average tax rate of the consolidated companies is as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Loss before tax	**(180,495)**	(238,254)
Tax at the weighted average tax rate	**(43,266)**	(67,463)
Tax effect of income that are not taxable	**(2,824)**	—
Tax effect of expenses that are not deductible	**42,642**	58,855
Tax effect of temporary differences and tax losses not recognized	**24,208**	4,005
Tax effect of tax concession	**(10)**	(203)
(Over)/under-provision in prior years	**(885)**	652
Income tax expense/(credit)	**19,865**	(4,154)

11. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2012 RMB'000	2011 RMB'000
Allowance for trade receivables	**1,788**	—
Allowance for other receivables	**85**	4,194
Amortisation of intangible assets	**8,280**	8,769
Auditor's remuneration		
— Audit services	**1,396**	1,821
— Other services	**—**	668
	1,396	2,489
Cost of inventories sold*	**137,075**	164,060
Depreciation	**13,068**	12,351
Equity-settled shares-based payments to third party consultants	**—**	1,475
Impairment on construction in progress	**—**	4,651
Impairment on goodwill	**20,217**	235,356
Impairment on intangible assets	**56,064**	—
Impairment on long-term prepayments	**—**	33,033
Impairment on property, plant and equipment	**94,142**	16,093
(Reversal of allowance)/allowance for inventories	**(87)**	2,581
Write-off of property, plant and equipment	**1,000**	—
Operating leases charges in respect of		
— Prepaid land lease payments	**1,714**	1,714
— Office premises in Hong Kong	**727**	680
— Leasehold land in PRC	**3,824**	3,708
Staff costs (including directors' emoluments)		
— Salaries, bonus and allowances	**15,884**	13,558
— Equity-settled share-based payments	**—**	8,242
— Retirement benefit scheme contributions	**880**	1,380
	16,764	23,180

* Cost of inventories sold includes staff costs, depreciation and amortisation of approximately RMB15,909,000 (2011: approximately RMB18,952,000) which are included in the amounts disclosed separately above.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

For the year ended 31 December 2012

	Fees	Salaries and allowances	Equity-settled share-based payments	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of director					
Executive directors					
Mr. Yang Xin Min *(note 25)*	—	1,420	—	4	1,424
Mr. Li Fu Ping*	—	140	—	4	144
Ms. Huang Yue Qin	—	349	—	4	353
Mr. Zhou Quan	—	202	—	4	206
Mr. Fang Guo Hong	—	—	—	—	—
	—	2,111	—	16	2,127
Non-executive director					
Mr. Wang Jia Wei	98	—	—	—	98
Independent Non-executive directors					
Dr. Cheng Faat Tiny Gary	81	—	—	—	81
Prof. Ji Chang Ming	80	—	—	—	80
Mr. Poon Lai Yin Michael	73	—	—	—	73
	234	—	—	—	234
	332	2,111	—	16	2,459

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

For the year ended 31 December 2011

	Fees	Salaries and allowances	Equity-settled share-based payments	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of directors					
Executive directors					
Mr. Yang Xin Min	—	1,446	564	4	2,014
Mr. Li Fu Ping	—	180	212	4	396
Ms. Huang Yue Qin	—	358	212	4	574
Mr. Zhou Quan	—	180	212	4	396
Mr. Fang Guo Hong	—	—	6,415	—	6,415
	—	2,164	7,615	16	9,795
Non-executive director					
Mr. Wang Jia Wei	58	—	212	—	270
Independent Non-executive directors					
Dr. Cheng Faat Tiny Gary	83	—	68	—	151
Prof. Ji Chang Ming	80	—	68	—	148
Mr. Poon Lai Yin Michael	75	—	68	—	143
	238	—	204	—	442
	296	2,164	8,031	16	10,507

* Mr Li Fu Ping resigned on 10 September 2012

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

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 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, executive director of the Company, has agreed to waive his remuneration for the period from 1 January 2010 to 14 June 2011, amounting to HK$524,000 (equivalent to approximately RMB434,000). Saved as disclosed above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid individuals in the Group during the year ended 31 December 2012 included 4 (2011: 4) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 1 (2011: 1) individual are set out below:

	2012	2011
	RMB'000	*RMB'000*
Salaries and allowances	**634**	647
Discretionary bonus	**159**	162
Equity-settled share-based payments	**—**	211
Retirement benefit scheme contributions	**11**	10
	804	1,030

The emoluments fell within the following band:

	Number of individuals	
	2012	2011
Nil to HK$1,000,000 (equivalent to Nil to RMB804,000 (2011: equivalent to RMB810,000))	**1**	—
HK$1,000,001 to HK$1,500,000 (equivalent to RMB804,001 to RMB1,206,000 (2011: equivalent to RMB810,001 to RMB1,216,000))	**—**	1
	1	1

13. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss for the year attributable to owners of the Company included a loss of approximately RMB102,326,000 (2011: approximately RMB167,530,000) which has been dealt with in the financial statements of the Company.

14. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2012 (2011: Nil).

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

	2012 ***RMB'000***	2011 *RMB'000*
Loss		
Loss for the purpose of calculating basic loss per share	**(200,362)**	(234,097)
Effect of interest saved on the liability component of convertible bonds outstanding	**3,597**	4,194
Effect of change in carrying amount of liability component and fair value of derivative component of convertible bonds	**(15,753)**	(51,264)
Loss for the purpose of calculating diluted loss per share	**(212,518)**	(281,167)

15. LOSS PER SHARE *(continued)*

	2012	2011
Number of shares		
Issued ordinary shares at 1 January	**2,583,412,645**	2,070,139,880
Effect of consideration shares (cancelled)/issued	**(129,606,099)**	237,287,427
Effect of conversion of convertible bonds	**—**	78,751,902
Effect of exercise of shares options	**—**	15,090,411
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**2,453,806,546**	2,401,269,620
Effect of dilutive potential ordinary shares arising from convertible loans outstanding	**144,444,444**	206,179,604
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	**2,598,250,990**	2,607,449,224

As the effect of the Company's outstanding share options for the years ended 31 December 2011 and 2012 were anti-dilutive, the Company did not include the effect of dilutive potential ordinary shares arising from the outstanding share options in the weighted average number of ordinary shares for the purpose of calculating diluted loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	The Group				
	Buildings RMB'000 (note (a))	**Machinery and equipment** RMB'000 (note (a))	**Office equipment and fixtures** RMB'000	**Motor vehicles** RMB'000	**Total** RMB'000
Cost					
At 1 January 2011	212,180	406,356	1,062	8,307	627,905
Additions	2,854	11,076	2,786	27	16,743
Transfer from construction in progress *(note 17)*	3,015	1,133	—	—	4,148
Acquisition of subsidiaries *(note 42)*	—	112,821	24	169	113,014
Exchange differences	—	—	(10)	—	(10)
At 31 December 2011 and 1 January 2012	218,049	531,386	3,862	8,503	761,800
Additions	3,364	14,678	75	366	18,483
Transfer from construction in progress *(note 17)*	11,286	20,670	—	—	31,956
Transfer from long-term prepayments *(note 22)*	6,420	45,051	—	—	51,471
Reversal upon write-off	—	(1,200)	—	—	(1,200)
Exchange differences	—	—	(10)	—	(10)
At 31 December 2012	239,119	610,585	3,927	8,869	862,500

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	The Group				
	Buildings *RMB'000* *(note (a))*	Machinery and equipment *RMB'000* *(note (a))*	Office equipment and fixtures *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Accumulated depreciation and impairment losses					
At 1 January 2011	196,908	354,805	1,015	5,832	558,560
Charge for the year	872	10,776	45	658	12,351
Impairment loss *(note (c))*	8,495	7,159	439	—	16,093
Exchange differences	—	—	(8)	—	(8)
At 31 December 2011 and 1 January 2012	206,275	372,740	1,491	6,490	586,996
Charge for the year	587	11,293	477	711	13,068
Impairment loss *(note (c) and note 19)*	10,386	82,899	857	—	94,142
Transfer from construction in progress *(note 17)*	2,008	2,890	—	—	4,898
Transfer from long term prepayment *(note 22)*	—	32,549	—	—	32,549
Reversal upon write-off	—	(200)	—	—	(200)
Exchange differences	—	—	(10)	—	(10)
At 31 December 2012	219,256	502,171	2,815	7,201	731,443
Carrying amount					
At 31 December 2012	19,863	108,414	1,112	1,668	131,057
At 31 December 2011	11,774	158,646	2,371	2,013	174,804

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

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

(b) At 31 December 2012, 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 RMB16,899,000 (2011: approximately RMB6,467,000).

At 31 December 2012, the carrying amount of machinery and equipment pledged as security for the Group's bills payables (note 28) and bank loans (note 30) amounted to approximately RMB70,921,000 (2011: N/A).

(c) The Group conducted an impairment testing of the carrying amount of the non-current assets. Based on the valuation report prepared by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, the Group has recognised an impairment loss of approximately RMB146,244,000 (2011: approximately RMB53,777,000) for the non-current assets. The recoverable amounts of the non-current assets have been determined on the basis of their value in use.

The impairment losses of non-current assets of the Group charged to profit or loss for the year ended 31 December 2012 can be further analysed as follows:

	Impairment loss of non-current assets held by subsidiaries with zirconium business 2012 *RMB'000*	Attributable to impairment loss of non-current assets arising from impairment of Goodwill in relation to acquisition of Muntari Group (Note 19) 2012 *RMB'000*	Total Impairment loss 2012 *RMB'000*	Total Impairment loss 2011 *RMB'000*
Property, plant and equipment	55,523	38,619	94,142	16,093
Construction in progress	—	—	—	4,651
Intangible assets *(note 20)*	—	56,064	56,064	—
Long-term prepayments	(3,962)	—	(3,962)	33,033
Charge to profit or loss	51,561	94,683	146,244	53,777

The impairment loss for 2011 was wholly attributable to impairment loss on non-current assets held by subsidiaries with zirconium business.

Key assumptions used for the value in use calculation in relation to the non-current assets held by subsidiaries with zirconium business:

	2012	2011
Sales volume growth rate	10% — 14%	10% — 15%
Gross contribution rate	5% — 12%	6% — 16%
Pre-tax discount rate	11%	12%-14%

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

The details of the impairment testing of goodwill and related non-current assets in relation to Muntari Group are disclosed in note 19.

17. CONSTRUCTION IN PROGRESS

	The Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**24,967**	76
Additions	**2,339**	33,690
Transfer to property, plant and equipment *(note 16)*	**(31,956)**	(4,148)
Impairment loss transferred to property, plant and equipment *(note 16)*	**4,898**	—
Impairment loss for the year *(note 16(c))*	**—**	(4,651)
At 31 December	**248**	24,967

The Group's construction in progress comprises costs incurred on buildings under construction and plant and machinery pending installation.

18. PREPAID LAND LEASE PAYMENTS

	The Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**62,679**	64,393
Additions	**1,096**	—
Transfer from long-term prepayments	**7,220**	—
Amortisation for the year	**(1,714)**	(1,714)
At 31 December	**69,281**	62,679
Current portion	**(1,877)**	(1,597)
Non-current portion	**67,404**	61,082

The Group's prepaid land lease payments represent payments for land use rights in the PRC and Indonesia under medium term leases.

19. GOODWILL

	The Group
	RMB'000
Cost	
At 1 January 2011	—
Acquisition of subsidiaries *(note 42)*	255,573
At 31 December 2011, 1 January 2012 and 31 December 2012	255,573
Accumulated impairment losses	
At 1 January 2011	—
Impairment loss for the year	235,356
At 31 December 2011 and 1 January 2012	235,356
Impairment loss for the year	20,217
At 31 December 2012	255,573
Carrying amount	
At 31 December 2012	—
At 31 December 2011	20,217

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

	2012	2011
	RMB'000	*RMB'000*
Muntari Group (the "CGU")	**255,573**	255,573

19. GOODWILL *(continued)*

The Group carried out impairment testing of the goodwill as at 31 December 2012. 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% (2011: 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 14% (2011: 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 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 2012, based on the valuation report prepared by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers. Given that the impairment loss was larger than the carrying amount of goodwill, the impairment loss was allocated against goodwill first and then to other relevant assets listed below. As the cash generating unit has been reduced to its recoverable amounts, any adverse change in assumptions used in the calculation of recoverable amount would result in further impairment losses.

The recoverable amount of the relevant assets has been determined on the basis of their value in use.

The impairment losses of non-current assets of Muntari Group charged to profit or loss for the year ended 31 December 2012 of approximately RMB94,683,000 (2011: Nil) can be further analysed as follows:

		The Group	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Property, plant and equipment	16	**38,619**	—
Intangible assets	20	**56,064**	—
Charged to profit or loss		**94,683**	—

20. INTANGIBLE ASSETS

	The Group			
	Technical know-how	**Operating license**	**Backlog**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(note (a))	*(note (b))*	*(note (c))*	
Cost				
At 1 January 2011	4,345	—	—	4,345
Acquisition of subsidiaries *(note 42)*	—	174,924	1,141	176,065
At 31 December 2011, 1 January 2012 and 31 December 2012	4,345	174,924	1,141	180,410
Accumulated amortisation and impairment losses				
At 1 January 2011	4,339	—	—	4,339
Amortisation for the year	3	7,951	815	8,769
At 31 December 2011 and 1 January 2012	4,342	7,951	815	13,108
Amortisation for the year	3	7,951	326	8,280
Impairment loss for the year *(note 19)*	—	56,064	—	56,064
At 31 December 2012	4,345	71,966	1,141	77,452
Carrying amount				
At 31 December 2012	—	102,958	—	102,958
At 31 December 2011	3	166,973	326	167,302

20. INTANGIBLE ASSETS *(continued)*

Notes:

(a) Technical know-how mainly represents a production technology in respect of rechargeable batteries acquired from a third party in 2003. The amortisation period is 5 years.

(b) Operating license represents the license to operate the wholesale and storage of petrochemicals granted by the PRC government authorities and is amortised over the estimated useful life of 22 years.

(c) 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.

21. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012	2011
	RMB'000	*RMB'000*
Unlisted shares, at cost	**30,744**	30,744
Less: Impairment loss *(note (b))*	**(30,744)**	(30,744)
	—	—

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Percentage of ownership interest		Principal activity
			Direct	Indirect	
Kingweston Technology Limited	British Virgin Islands ("BVI")	US$2,500,000	100%	—	Investment holding
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
濱海龍晶化工有限公司 (Binhai Dragon Crystal Chemicals Company Limited)*	PRC	US$12,410,550	—	100%	Research, development, manufacturing and sales of zirconium compounds
Century Dragon Investment Limited	Hong Kong ("HK")	HK$15,000,000	—	100%	Leasing of the Group's office premises in HK, provision of administrative services and general trading in HK
宜興倍特電池有限公司 (Yixing Better Batteries Company Limited)*	PRC	US$4,200,000	—	100%	Research, development, manufacturing and sales of rechargeable batteries
宜興新興鋯業有限公司 (Yixing Xinxing Zirconium Company Limited)*	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

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2012 are as follows: *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Percentage of ownership interest Direct	Indirect	Principal activity
Muntari Holdings Limited ("MH")	BVI	US$1	—	100%	Investment holding
Muntari Investments (HK) Limited ("MIHK")	HK	HK$1	—	100%	Investment holding
寧波聯易企業管理諮詢有限公司 (Ningbo Lianyi Enterprise Management Consultancy Company Limited) ("NBLY")*	PRC	RMB1,500,000	—	100%	Management consulting
寧波市博琨石化倉儲有限公司 (Ningbo Bokun Petrochemical Storage Company Limited) ("NBBK")*	PRC	RMB50,000,000	—	Note (a)	Petrochemicals storage and wholesale

* These subsidiaries are wholly-owned foreign enterprises established in the PRC.

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

(a) 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 of NBBK in the PRC. 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 is entitled and 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 by 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.

In the opinion of the directors, NBLY has control over NBBK through the above agreements.

(b) 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 then 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 approximately RMB9,138,000 as at 31 December 2009.

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 2012, the Company's directors considered that it was appropriate to maintain the full provision for the impairment losses on the assets of APR.

22. LONG-TERM PREPAYMENTS

As at 31 December 2012, the Group had made prepayments of approximately RMB983,000 (2011: approximately RMB26,995,000), for the acquisition of machinery and equipment for the manufacturing plants under development.

23. INVENTORIES

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Raw materials	**30,307**	8,548
Work in progress	**2,590**	3,473
Finished goods	**10,444**	20,479
	43,341	32,500

Movement of allowance for inventories

	The Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**6,487**	3,906
(Reversal of allowance)/allowance for the year *(note 11)*	**(87)**	2,581
At 31 December	**6,400**	6,487

24. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**12,534**	24,843	**—**	—
Bills receivables	**150**	200	**—**	—
Less: Allowance for doubtful debts	**(2,387)**	(599)	**—**	—
	10,297	24,444	**—**	—
Advance payments to suppliers				
— petrochemical suppliers	**463,238**	328,545	**—**	—
— other suppliers	**1,098**	4,303	**—**	—
Deposits and prepayments	**5,699**	5,691	**—**	—
Other receivables	**25,739**	16,345	**283**	298
Dividend receivables	**—**	—	**11,258**	11,345
	506,071	379,328	**11,541**	11,643

Trade and bills receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables, based on invoice date, and net of allowance, is as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**9,791**	19,135
3 to 6 months	**—**	3,052
6 months to 1 year	**305**	2,056
Over 1 year	**51**	1
	10,147	24,244

24. TRADE AND OTHER RECEIVABLES (continued)

As of 31 December 2012, trade receivables of approximately RMB1,127,000 (2011: approximately RMB6,226,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**771**	4,613
3 to 6 months	**55**	—
6 months to 1 year	**250**	1,612
Over 1 year	**51**	1
	1,127	6,226

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
RMB	**5,424**	19,409
US$	**4,873**	5,035
	10,297	24,444

24. TRADE AND OTHER RECEIVABLES (continued)

Movement of allowance for trade receivables

	The Group	
	2012	2011
	RMB'000	*RMB'000*
At 1 January	**599**	599
Allowance for the year *(note 11)*	**1,788**	—
At 31 December	**2,387**	599

Note: At 31 December 2012, other receivable of approximately RMB85,000 (2011: approximately RMB4,143,000) was individually determined to be impaired. Management assessed that the recoverability of the balance was remote and accordingly an impairment loss was recognised.

25. DUE FROM A DIRECTOR

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

		The Group		
Name	**Terms of loan**	**Balance at 31 December 2012** ***RMB'000***	**Balance at 1 January 2012** *RMB'000*	**Maximum amount outstanding during the year** *RMB'000*
Mr. Yang Xin Min	Unsecured, repayable on demand and interest-free	**3,870**	2,962	3,870

		The Company		
Name	**Terms of loan**	**Balance at 31 December 2012** ***RMB'000***	**Balance at 1 January 2012** *RMB'000*	**Maximum amount outstanding during the year** *RMB'000*
Mr. Yang Xin Min	Unsecured, repayable on demand and interest-free	**453**	—	453

26. PLEDGED BANK DEPOSITS AND NON-PLEDGED BANK DEPOSITS WITH MORE THAN THREE MONTHS TO MATURITY

The deposits are at fixed interest rate as below and therefore expose the Group to fair value interest rate risk.

	The Group	
	2012	2011
Pledged bank deposits	**2.80%**	3.30%
Non-pledged bank deposits with more than three months to maturity	**2.85%**	3.30%

As at 31 December 2012 and 2011, both the bank deposits are denominated in RMB.

27. BANK AND CASH BALANCES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and on hand	**20,364**	66,384	**195**	1,377
Bank deposits	**—**	162	**—**	—
	20,364	66,546	**195**	1,377

27. BANK AND CASH BALANCES *(continued)*

The carrying amounts of the Group's and Company's bank and cash balances are denominated in the following currencies:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Canadian dollars	**22**	23	**21**	22
Hong Kong dollars ("HK$")	**789**	1,730	**173**	1,354
RMB	**18,543**	56,894	**—**	—
US$	**1,010**	7,899	**1**	1
	20,364	66,546	**195**	1,377

As at 31 December 2012, the Group's bank and cash balances denominated in RMB held by the Group's subsidiaries located in the PRC amounted to approximately RMB18,543,000 (2011: approximately RMB56,894,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

28. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**8,725**	5,774	**—**	—
Bills payables	**855,000**	551,450	**—**	—
	863,725	557,224	**—**	—
Receipts in advance from customers	**1,162**	1,195	**—**	—
Payables for construction costs and purchase of property, plant and equipment	**16,100**	27,391	**—**	—
Accruals and other payables	**29,403**	26,883	**1,106**	1,850
	910,390	612,693	**1,106**	1,850

28. TRADE AND OTHER PAYABLES *(continued)*

The aging analysis of the Group's trade payables, based on the date of receipt of goods, is as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**6,784**	4,470
3 to 6 months	**801**	276
6 months to 1 year	**421**	289
Over 1 year	**719**	739
	8,725	5,774

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2012	2011
	RMB'000	*RMB'000*
RMB	**863,670**	557,169
US$	**55**	55
	863,725	557,224

As at 31 December 2012, the Group's bills payables of RMB855,000,000 were secured by pledged bank deposits (note 26), machinery and equipment (note 16(b)) and other guarantees as set out in note 30 to the financial statements. As at 31 December 2011, the Group's bills payables of RMB551,450,000 were secured by pledged bank deposits (note 26).

29. DUE TO DIRECTORS/RELATED PARTIES

The amounts due to directors are unsecured, interest-free and repayable on demand.

The amounts due to related parties are disclosed in note 41.

30. BANK LOANS

The Group's bank loans are repayable within one year. The carrying amounts of the Group's bank loans are denominated in RMB, arranged at fixed interest rates of 6% p.a. (2011: 7.54%) and expose the Group to fair value interest rate risk.

Bank loans of RMB40,000,000 and bills payables (note 28) of RMB855,000,000 as at 31 December 2012 are secured by:

— Charge over the machinery and equipment (note 16);

— Charge over pledged bank deposits (note 26);

— Guarantee provided by a related company, Shanghai Bokun Investments Co., Ltd. (note 41(b)); and

— Personal guarantees provided by a director, Mr. Wang Jia Wei and Ms. Liu Chao Yin, an associate of Mr. Wang Jia Wei (note 41(b)).

Bank loans of RMB20,000,000 as at 31 December 2011 were unsecured.

31. 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 HK$130,000,000), as part of the consideration for the acquisition of Muntari Group (see note 42). The convertible bonds are interest-free and unsecured.

31. CONVERTIBLE BONDS *(continued)*

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 "Agreement"), 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 42).

The convertible bond holders are not entitled to request redemption of 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 (note 34(b)).

31. CONVERTIBLE BONDS *(continued)*

The amount from the issue of the convertible bonds have been split between the liability element and derivative components as follows:

	The Group and the Company		
	Liability component *RMB'000*	**Derivative component** *RMB'000*	**Total** *RMB'000*
Issue of convertible bonds, net of direct transaction costs	63,390	130,610	194,000
Interest charged for the year *(note 9)*	4,194	—	4,194
Changes in carrying amount and fair value *(note 7)*	5,438	(56,702)	(51,264)
Conversion into ordinary shares of the Company *(note 34 (b))*	(35,253)	(52,725)	(87,978)
Exchange differences	(2,378)	(3,743)	(6,121)
At 31 December 2011 and 1 January 2012	35,391	17,440	52,831
Interest charged for the year *(note 9)*	3,597	—	3,597
Changes in carrying amount and fair value *(note 7)*	105	(15,858)	(15,753)
Exchange differences	(315)	40	(275)
At 31 December 2012	38,778	1,622	40,400

The interest charged for the year is calculated by applying an effective interest rate of 8.92% (2011: 8.92%) to the liability component per annum.

31. CONVERTIBLE BONDS *(continued)*

The fair value of the liability component of the convertible bonds at 31 December 2012 is to be approximately RMB42,612,000 (2011: approximately RMB35,391,000). The derivative component is measured at its fair value at the date of issue and at the end of each reporting period. The fair value has been determined by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers. The fair values are estimated using the binomial model. The key assumptions used are as follows:

	31 December 2012	31 December 2011	Date of conversion on 16 June 2011	Date of issue on 6 January 2011
Weighted average share price	**HK$0.18**	HK$0.345	HK$0.74	HK$0.88
Weighted average exercise price	**HK$0.45**	HK$0.45	HK$0.45	HK$0.45
Expected volatility	**70%**	84%	80%	80%
Expected life	**3.02 years**	4.02 years	4.56 years	5 years
Risk free interest rate	**0.12%**	0.77%	1.19%	1.73%
Expected dividend yield	**0%**	0%	0%	0%

32. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group.

	Impairment *RMB'000*	**Future benefit of tax losses** *RMB'000*	**Fair value change of property, plant and equipment and intangible assets at acquisition** *RMB'000*	**Total** *RMB'000*
At 1 January 2011	102,213	3,000	—	105,213
Acquisition of subsidiaries *(note 42)*	—	—	(50,285)	(50,285)
Credited to profit or loss *(note 10)*	10,610	921	2,477	14,008
At 31 December 2011 and 1 January 2012	112,823	3,921	(47,808)	68,936
(Charged)/credited to profit or loss *(note 10)*	(15,440)	(3,883)	2,354	(16,969)
At 31 December 2012	97,383	38	(45,454)	51,967

32. DEFERRED TAX (continued)

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Deferred tax liabilities	**(45,454)**	(47,808)
Deferred tax assets	**97,421**	116,744
	51,967	68,936

At 31 December 2012, the Group has unused tax losses of approximately RMB144,626,000 (2011: approximately RMB105,067,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB150,000 (2011: approximately RMB15,712,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB144,476,000 (2011: approximately RMB89,355,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB37,204,000 that will be expired in 2014. Other tax losses may be carried forward indefinitely.

33. DEFINED CONTRIBUTION RETIREMENT PLAN

Defined contribution retirement plan

The Group participates in 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 scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 from June 2012.

The Group also participates in defined contribution retirement benefits schemes for all qualifying employees in the PRC.

The Group's total contributions to these schemes charged to the profit or loss in the consolidated statement of comprehensive income during the year ended 31 December 2012 amounted to approximately RMB880,000 (2011: approximately RMB1,380,000) representing contributions payable by the Group to the schemes at the appropriate rates set by the local government of the subsidiaries.

34. SHARE CAPITAL

The Company

	Number of shares	Nominal value of shares
		HK$'000
Authorised:		
Ordinary shares of HK$0.05 each		
At 31 December 2011, 1 January 2012 and 31 December 2012	8,000,000,000	400,000

	Number of shares	Nominal value of shares	Nominal value of shares
		HK$'000	*RMB'000*
Issued and fully paid:			
At 1 January 2011	2,070,139,880	103,507	101,850
Shares issued in relation to acquisition of subsidiaries *(note (a))*	351,828,321	17,591	14,755
Shares issued upon conversion of convertible bonds *(note (b))*	144,444,444	7,222	6,008
Shares issued under share option scheme *(note (c))*	17,000,000	850	719
At 31 December 2011 and 1 January 2012	2,583,412,645	129,170	123,332
Cancellation of shares under the deed of settlement *(note (d))*	(129,606,099)	(6,480)	(5,291)
At 31 December 2012	2,453,806,546	122,690	118,041

34. SHARE CAPITAL *(continued)*

Notes:

(a) In addition to the 222,222,222 consideration shares issued for the acquisition of Muntari Holdings Limited (note 42), the Company issued 129,606,099 consideration shares to shareholders of Haney Holdings Limited, equivalent to approximately RMB83,275,000, in exchange for the entire issued share capital of Haney Holdings Limited, of which approximately RMB5,291,000 was credited to share capital and the balance of approximately RMB77,984,000 was credited to the share premium account.

(b) On 16 June 2011, the Company issued 144,444,444 ordinary shares of the Company upon the conversion of Tranche 1 of the convertible bonds (note 31), of which approximately RMB6,008,000 was credited to share capital and approximately RMB81,970,000 was credited to share premium.

(c) On 11 February 2011, the Company issued 17,000,000 ordinary shares of the Company upon exercise of share options by option holders at a consideration of approximately RMB9,774,000 of which approximately RMB719,000 was credited to share capital and the balance of approximately RMB9,055,000 was credited to the share premium account. Approximately RMB4,111,000 has been transferred from the capital reserve to the share premium account.

(d) On 30 July 2012, an extraordinary general meeting was held by the Company. A special resolution was passed to approve the deed of settlement dated 25 May 2012 (the "Deed of Settlement") signed among the Company, KW and Mr. Wang Xiaoping Peter to cancel a total of 129,606,099 ordinary shares (note (a)) which were surrendered by Mr. Wang Xiaoping Peter at nil consideration. The consideration shares issued to him in relation to the acquisition of Haney Holdings Limited was cancelled with effect from 30 July 2012.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the year ended 31 December 2011 and 2012.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising trade and other payables, amounts due to directors and related parties, bank loans and convertible bonds) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2012 was approximately 273.6% (2011: approximately 123.3%).

35. RESERVES

(a) The Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of changes in equity.

(b) The Company

	Share premium account RMB'000 (note(c)(i))	Share-based payment reserve RMB'000 (note(c)(ii))	Foreign currency translation reserve RMB'000 (note(c)(iv))	Amount receivable in respect of consideration shares issued at acquisition RMB'000 (note 34(d))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	416,702	12,400	(60,473)	—	(75,086)	293,543
Total comprehensive income for the year	—	—	(27,785)	—	(167,530)	(195,315)
Issue of consideration shares related to acquisition of Muntari Holdings Limited *(note 42)*	157,107	—	—	—	—	157,107
Issue and anticipated cancellation of consideration shares related to acquisition of Haney Holdings Limited	77,984	—	—	(83,275)	—	(5,291)
Shares issued upon conversion of convertible bonds *(note 42)*	81,970	—	—	—	—	81,970
Shares issued under share option scheme *(note 34(c))*	13,166	(4,111)	—	—	—	9,055
Equity-settled share-based payments	—	9,717	—	—	—	9,717
Changes in equity for the year	330,227	5,606	(27,785)	(83,275)	(167,530)	57,243
At 31 December 2011 and 1 January 2012	746,929	18,006	(88,258)	(83,275)	(242,616)	350,786
Total comprehensive income for the year	—	—	(5,430)	—	(102,326)	(107,756)
Cancellation of consideration shares related to acquisition of Haney Holdings Limited *(note 34(d))*	(77,984)	—	—	83,275	—	5,291
Lapse of shares options granted in prior years	—	(9,697)	—	—	9,697	—
Changes in equity for the year	(77,984)	(9,697)	(5,430)	83,275	(92,629)	(102,465)
At 31 December 2012	668,945	8,309	(93,688)	—	(335,245)	248,321

35. RESERVES *(continued)*

(c) Nature and purpose of reserves

(i) Share premium account

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share. 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 debts as they fall due in the ordinary course of business.

(ii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(n) to the financial statements.

(iii) Statutory reserve

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

(iv) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the financial statements

35. RESERVES *(continued)*

(c) Nature and purpose of reserves *(continued)*

(v) Merger reserve

The merger reserve of the Group arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 2002 and represented the difference between the nominal value of the aggregate capital of the subsidiaries combined under the group reorganisation over the nominal value of the share capital of the Company issued in exchange therefore.

36. SHARE-BASED PAYMENTS

Equity-settled share option scheme

Pursuant to the written resolution passed 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 of directors may, at its discretion, grant options to the eligible persons as defined in the New Scheme.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, directors and full-time and part-time business consultants of the Company and the shareholders of the Group. The New Scheme became effective on 27 May 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

36. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the New Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

36. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

(a) Details of the specific categories of options are as follows:

Date of grant	Guarantee	Vesting period	Exercise period	Exercise price *HK$*	No. of share options granted
15 August 2008	Consultants	Immediate	15 August 2008 to 15 August 2013	0.330	600,000
31 May 2010	Directors	Immediate	31 May 2010 to 30 May 2015	0.261	200,000
3 December 2010	Consultants	Immediate	3 December 2010 to 2 December 2012	0.680	51,000,000
14 June 2011	Director	Immediate	14 June 2011 to 13 June 2013	0.818	22,480,000
14 June 2011	Directors	Immediate	14 June 2011 to 13 June 2016	0.818	4,600,000
14 June 2011	Employees	Immediate	14 June 2011 to 13 June 2016	0.818	600,000
21 July 2011	Consultants	Immediate	21 July 2011 to 20 July 2013	0.860	5,000,000
					84,480,000

If the options remain unexercised after an exercise period from the date of grant, the options expire. Options are forfeited if the employee leaves the Group.

36. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

(a) Details of the specific categories of options are as follows: *(continued)*

For the year ended 31 December 2012

Grantee	Outstanding at 1 January	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Directors	200,000	–	–	–	–	200,000	200,000	HK$0.261
Directors	27,080,000	–	–	–	–	27,080,000	27,080,000	HK$0.818
Employees	600,000	–	–	–	–	600,000	600,000	HK$0.818
Consultants	600,000	–	–	–	–	600,000	600,000	HK$0.330
Consultants	34,000,000	–	–	(34,000,000)	–	–	–	HK$0.680
Consultants	5,000,000	–	–	–	(5,000,000)	–	–	HK$0.860
	67,480,000	–	–	(34,000,000)	(5,000,000)	28,480,000	28,480,000	
Weighted average exercise price	HK$0.75	–	–	HK$0.68	HK$0.86	HK$0.80	HK$0.80	

36. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

(a) Details of the specific categories of options are as follows: *(continued)*

For the year ended 31 December 2011

Grantee	Outstanding at 1 January	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Directors	200,000	–	–	–	–	200,000	200,000	HK$0.261
Directors	–	27,080,000	–	–	–	27,080,000	27,080,000	HK$0.818
Employees	–	600,000	–	–	–	600,000	600,000	HK$0.818
Consultants	600,000	–	–	–	–	600,000	600,000	HK$0.330
Consultants	51,000,000	–	(17,000,000)	–	–	34,000,000	34,000,000	HK$0.680
Consultants	–	5,000,000	–	–	–	5,000,000	5,000,000	HK$0.860
	51,800,000	32,680,000	(17,000,000)	–	–	67,480,000	67,480,000	
Weighted average exercise price	HK$0.67	HK$0.82	HK$0.68	–	–	HK$0.75	HK$0.75	

The weighted average share price at the date of exercise for share options exercised during 2011 was HK$1.34.

The options outstanding at 31 December 2012 had an exercise price which ranged from HK$0.261 to HK$0.86 (2011: HK$0.261 to HK$0.86) and a weighted average remaining contractual life of approximately 1 year (2011: approximately 1 year). In 2011, options were granted on 14 June 2011 and 21 July 2011. The estimated fair value of the options on 14 June 2011 and 21 July 2011 were approximately RMB8,242,000 and RMB1,475,000.

36. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

(b) Fair value of share options and assumptions

The fair value was calculated using the binomial model. The inputs into the model are as follows:

	Options granted on 21 July 2011	Options granted on 14 June 2011
Fair value at measurement date	HK$0.3559	HK$0.3428 — HK$0.4237
Share price	HK$0.860	HK$0.770
Exercise price	HK$0.860	HK$0.818
Expected volatility	88%	80% — 90%
Expected life	2 years	2 to 5 years
Expected dividend yields	0%	0%
Risk-free interest rate (based on Exchange Fund Notes)	0.251%	0.351% — 1.347%

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.

37. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2012, additions to property, plant and equipment and prepaid lease payment of approximately RMB51,471,000 and RMB7,220,000 (2011: Nil and Nil) respectively were transferred from long-term prepayments.

38. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Property, plant and equipment		
Contracted but not provided for	**2,223**	13,427

39. LEASE COMMITMENTS

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within one year	**3,205**	2,591
In the second to fifth year inclusive	**9,764**	8,307
After five years	**30,425**	32,499
	43,394	43,397

The Group leases offices and 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.

39. LEASE COMMITMENTS *(continued)*

At 31 December 2012, the total future minimum lease expected to be received under non-cancellable operating leases are as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
Within 1 year	**5,633**	15,167
After 1 year but within 5 years	**417**	416
	6,050	15,583

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.

40. OTHER COMMITMENT

At 31 December 2012, the Group had a commitment of US$561,000 (2011: US$561,000) equivalent to approximately RMB3,497,000 (2011: approximately RMB3,535,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

41. RELATED PARTIES TRANSACTIONS

In addition to those related party transaction and balances disclosed elsewhere in the financial statements, the Group had entered into the following transactions with its related parties during the year.

(a) Transaction with related parties

Name of related parties	Relationship	Nature of transaction	2012 RMB'000	2011 RMB'000
Shanghai Bokun Investment Co., Ltd. ("SBIC")	Controlled by a director of the Company	Motor vehicles service fee charged	**975**	—
Shanghai Chuangsheng Petrochemical Industry Co., Ltd. ("SCPIC")	Common key management personnel	Interest on cash advance charged	**472**	—

(b) Details of guarantees provided by related parties to the Group for banking facilities are set out in note 30 to the financial statements.

(c) Amounts due to related parties

Name of related parties	Relationship	Terms	2012 RMB'000	2011 RMB'000
SBIC	Controlled by a director of the Company	Unsecured, interest-free and repayable on demand	**5,400**	—
SCPIC	Common key management personnel	Interest at 8% p.a. and repayable within six months	**—**	15,000
Jiangsu Xinxing Chemicals Co., Ltd.	Controlled by a director of the Company	Unsecured, interest-free and repayable on demand	**1,138**	1,138
			6,538	16,138

41. RELATED PARTIES TRANSACTIONS *(continued)*

(d) The compensation to the Group's key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees, is disclosed in note 12 to the financial statements.

42. 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 (note 21(a)), 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 Ningbo city of the PRC. The acquisition is expected to improve the prospect of the Group by diversification into the petrochemical business.

The petrochemical business contributed a turnover of approximately RMB42,731,000 and profits of approximately 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.

As part of consideration, the Company issued 222,222,222 consideration shares to shareholders of MH in exchange for the entire issued share capital of MH, equivalent to approximately RMB166,571,000, of which approximately RMB9,464,000 was credited to share capital and the balance of approximately RMB157,107,000 was credited to the share premium account. The fair value of the consideration shares issued was based on the closing share price on 6 January 2011 of HK$0.88 per share.

As part of consideration, the Company also issued 2 tranches, Tranche 1 and 2, of convertible bonds totaling HK$130,000,000. The fair values of the convertible bonds were valued by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuer, at HK$227,756,000 as at date of issue on 6 January 2011 (note 31).

42. ACQUISITION OF SUBSIDIARIES *(continued)*

Acquisition of Muntari Holdings Limited *(continued)*

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 (the "Agreement"), 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.

42. 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:

	Pre-acquisition carrying amounts *RMB'000*	Fair value adjustments *RMB'000*	Recognised values on acquisition *RMB'000*
Property, plant and equipment *(note 16)*	87,942	25,072	113,014
Intangible assets *(note 20)*	—	176,065	176,065
Trade and other receivables	329,251	—	329,251
Pledged bank deposits	300,000	—	300,000
Bank and cash balances	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 *(note 32)*	—	(50,285)	(50,285)
Identifiable liabilities assumed			(719,092)
Fair value of net identifiable assets			207,213
Satisfied by:			
Issue of consideration shares			166,571
Issue of convertible bonds			194,000
Cash			102,215
Consideration			462,786
Goodwill *(note 19)*			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

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2013.