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Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheng Faat Ting Gary, CPA, HKICPA
Prof. Ji Chang Ming
Mr. Poon Lai Yin Michael
Mr. Victor Tong (Resigned on 29 January 2010)

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

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

AUDITORS

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

PRINCIPAL BANKERS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 68 Hongxin Road
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Yixing City
Jiangsu Province
PRC

PLACE OF BUSINESS AND CORRESPONDENCE ADDRESS IN HONG KONG

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LEGAL ADVISERS

Li & Partners
Conyers Dill & Pearman, Cayman
Fraser Milner Casgrain LLP

PRINCIPAL REGISTRAR

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
Wan Chai
Hong Kong

CANADIAN BRANCH SHARE REGISTRAR

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

STOCK NAME

Sino Dragon

STOCK CODE

Hong Kong Stock Exchange: 395

Financial Summary

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Turnover	153,234	126,108	478,775	541,510	446,719
Gross profit margin (%)	8%	-16%	23%	23%	25%
(Loss)/Profit attributable to shareholders	(144,739)	(296,430)	31,287	61,464	57,797
EBIT	(151,033)	(395,655)	45,146	81,206	78,712
EBITDA	(142,150)	(374,551)	64,660	98,485	95,842
Dividends — ordinary shares	n/a	n/a	3,788	13,377	15,857
(Loss)/Earnings per share* (restated)					
— basic (<i>RMB</i>)	(0.0821)	(0.238)	0.022	0.048	0.058
(Loss)/Earnings per share* (restated)					
— diluted (<i>RMB</i>)	(0.0820)	(0.238)	0.022	0.048	n/a
Debt-equity ratio	net cash position	net cash position	net cash position	net cash position	net cash position
Dividends payout ratio (%)	n/a	n/a	12%	22%	27%
Ordinary shares* (<i>shares</i>)	2,070,139,880	1,621,939,880	1,432,339,880	1,419,341,880	1,008,341,880
Bank and cash balances	276,802	230,136	278,403	253,152	165,718
Cash per share* (restated) (<i>RMB</i>)	0.13	0.14	0.20	0.18	0.16
Total assets	610,823	586,002	879,834	861,101	659,814
Net asset value	527,181	514,696	788,483	766,764	537,132
Net asset value per share* (restated) (<i>RMB</i>)	0.25	0.32	0.55	0.54	0.53
Inventory turnover days	78 days	96 days	56 days	52 days	49 days
Debtors turnover days	58 days	85 days	43 days	44 days	39 days
Creditors turnover days	24 days	30 days	11 days	12 days	30 days

* The figures for 2006 to 2008 presented in the table above have been restated to take into account the 1 to 20 share subdivision ("Share Subdivision") which took effect from 9 November 2009.

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 potential diversification of the Company's business into new energy-related business. The Group is 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 current annual production capacity of over 40,000 tonnes of various types of zirconium chemicals and 1,500 tonnes of new energy materials. In 2004, the Group established a new wholly-owned subsidiary in Yixing which specialised in the manufacture and sale of rechargeable batteries. It has developed and possessed intellectual property rights in the new type high temperature battery and power battery with zirconium additives. In 2007, the Group established a new wholly-owned subsidiary in Binhai, Jiangsu Province, the PRC, which operated a newly established zirconium production plant. Moreover, the Group expanded further into zircon processing and refining business through the establishment of a joint venture in Indonesia.

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

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

The Group's products, with "Long Jing" as the registered trademark in the PRC, Japan, US & Hong Kong, has long been well-received by the international market. Products have been exported to Japan, US and Europe for 32 years, 20 years and 21 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

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.

Apart from the leading position of the Group in the PRC zirconium chemicals market, the experience and expertise of its Chairman, Mr. Yang Xin Min, is also highly appraised by the industry. During the period from 2003 to 2008, Mr. Yang had taken up various roles, including Chairman, Vice Chairman and expert team member, in the committee of "China Nonferrous Metals Association - Titanium, Zirconium and Hafnium Branch" (中國有色金屬協會 — 鈦銻鉛分會). The management talent and industrial expertise of the Group are therefore widely recognised.

The Group's development will be focused on new technology, with intellectual property right, in new materials, new energy and environmentally friendly products.

Chairman's Statement



On behalf of the Board of Directors (the "Board") of the Company, I herein present the annual results of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2010 to the shareholders of the Company.

Following a sharp and global economic downturn in late 2008, the economy appears to be recovering in 2010. During the year under review, the Group has achieved a sales growth by 22% and recovered to a positive gross margin of 8%. This marked a significant improvement from prior year's results even though it was still way behind the sales and profit level that were reported by the Group before the global financial crisis. However, the Company is optimistic in the future market of zirconium chemicals and is expecting to see a significant demand growth in 2011 and ensuing years as a result of the worldwide nuclear resurgence. The increasing use of nuclear power, as an alternative to environmentally unfriendly coal power stations, is likely to continue with the world needing to deal with global warming issue, which in turn will see demand for zirconium continue. The nuclear risk in Japan triggered by the earthquake in March 2011 has caused globally a reconsideration of the promotion and popularization of nuclear power, which in turn might slowdown the previously forecast growth rate of zirconium grade nuclear. However, based on our understanding with the Japanese customers, after the earthquake their government might put more emphasis on the applications of new materials and new energy. Hence, demand for zirconium chemicals is forecasted to be even better than before. Being an exporter of zirconium chemicals supplying to the overseas nuclear grade zirconium and new materials producers, the Company is expected to benefit from the promotion of nuclear power and new materials globally.

Chairman's Statement

Anticipating the increase in market demand for zirconium oxychloride, the Group's new production plant in Binhai has resumed the machinery installation, which was substantially completed in November 2010. The Binhai plant has commenced test-runs in December 2010 and it is scheduled to commence small scale production in March 2011, then stepping up gradually to full-scale production. After the Binhai plant came into operation, the plant at Yixing will be repositioned to become a production base of medium- and high-end zirconium products.

The rechargeable batteries business was also growing steadily and continued to contributing net profit to the Group's results in 2010. The Group's batteries sales have increased by 22% in 2010 as compared to prior year and the gross margin has further improved from 23% to 26%. The Group will persist in its differentiation strategy by focusing on the promotion of the high temperature batteries (with zirconium) to the overseas market.

Apart from the consolidation of the existing core businesses, the Company is also actively seeking potential investment opportunities. In the first half year of 2010, the Company has performed due diligence review on two potential investment projects, namely Shanxi Eurofo Green Energy Co., Ltd. (details as stated in the Company's announcement dated 9 December 2009) and Danyang Century New Energy Resources Co., Ltd. (details as stated in the Company's announcement dated 9 March 2010). However, based on the findings of the due diligence review, the Company's directors were of the view that the potential investment may not be in the best interest of the Company and the shareholders as a whole. As a result, the Company decided not to proceed with either of these projects. Yet the unsuccessful experience did not impede the Group's investment plan. On 4 November 2010, the Company announced the proposed acquisition of Muntari Holdings Limited, which is an investment holding company principally engaged in the wholesale and storage business of petrochemicals through certain contractual arrangements with its subsidiaries. This major acquisition transaction was completed on 6 January 2011, marking the commencement of a new business for the Group. The management is confident that the new business will contribute positively to the Group's revenue and profit in the coming year.

Looking forward to 2011, I and the Board will continue to dedicate incessant efforts in attaining the Group's goal of diversifying into new energy and energy business, expanding income streams and improving profitability. Additionally, the Group will consolidate the existing foundation in zirconium chemicals and rechargeable batteries businesses through restructuring the resource allocation in a more efficient manner, so as to achieve better results for the Company.

Last but not least, I would like to express my heartfelt thanks to the management and the staff for their dedication and contribution to the Company. My gratitude is also extended to our shareholders, fellow Board members and all business partners for their continuing support and unwavering trust. We will adhere to our aggressive yet pragmatic approach in capturing future development opportunities and strive to attain better returns to our shareholders.

Yang Xin Min
Chairman

Management Discussion and Analysis

BUSINESS REVIEW

The economic turmoil that flattened the industrial sector globally during 2009 severely impacted the zirconium chemicals industry. The zirconium chemicals industry remained weak in the first few months of 2010 and grew steadily thereafter. However, robust economic growth also led to increased competition and price cut-throat competition among producers of low-end zirconium chemical products. On the supply side, the declining zircon mine production since 2008 led to tight supply and rising price of zircon sand. In addition, the continuous rise of fuel, electricity and labour costs in 2010 also exerted pressure on the profit margins. Despite all these unfavourable factors, the Group's financial results had improved in current year after a big hit by the global recession in 2009. The Group's consolidated turnover has increased by 22% in 2010 and the gross profit margin returned to a more reasonable level. Such improvement was partly due to the increase in selling prices of medium- and high-end zirconium chemical products, as well as the reduction in the fixed overheads included in the cost of production.

The Group's new zirconium production plant at Binhai had completed machinery installation and commenced test-run in December 2010. It has started small scale production in March 2011 and after certain fine-tunings of machineries are completed, it is expected to step up gradually to a full scale production during 2011. Given the stringent environmental protection measures imposed by the PRC government on the zirconium chemicals production plants, the Group's new plant in Binhai will enjoy a competitive advantage in its modern and environmentally friendly production environment.

On the other hand, the operation of the Group's zircon sand processing plant in Indonesia remained under suspension because there was no stable supply of mineral concentrate in the Kalimantan area of Indonesia. The local government's investigation on the legality of the mineral suppliers of the plant was terminated in February 2011 and the Indonesian police did not take any legal action against the Group or its joint venture company. The joint venture company will resume access to the plant premises and assets once the legal approval procedures are completed. The Group will strive to resume operation of the zircon processing project sooner, so as to stabilize the internal zircon supply and contribute to the Group's results.

Management Discussion and Analysis

For the rechargeable batteries business, the Group had also reported a sales growth by 22% in 2010 as compared to 2009. Average gross margin of batteries segment had improved from 23% in prior year to 26% in current year, and it continued to report a net profit in 2010. The management is expecting to see further improvement in the results of batteries segment in the coming year.

Apart from consolidating the existing business, the Group has also actively developed new income stream and new business opportunities. In January 2011, the Company has completed the major acquisition of a petroleum storage and wholesale business located in Ningbo, PRC. It laid a good foundation for the expansion of the Company's business into the energy-related industry.

OUTLOOK

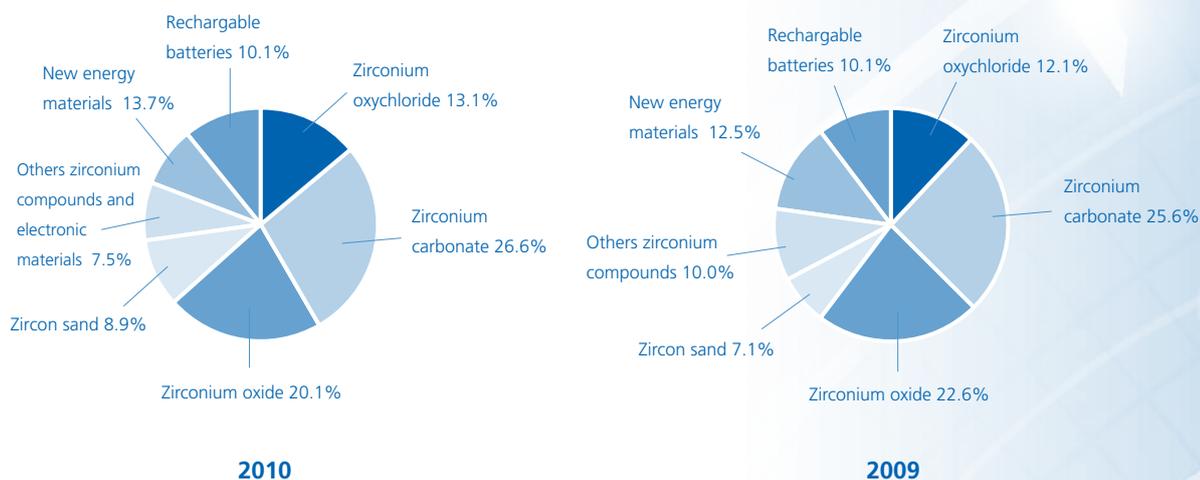
With the rebound of the Chinese and global economies, and the increasing demand for zirconium oxychloride and/or zirconium oxides by the nuclear power zirconium metal producers, the prospects for zirconium chemicals appear good. Looking ahead, the Group is cautious and optimistic for the operation in 2011. The promotion of new materials, new green energy and nuclear power is expected to provide a favourable environment for the Group's zirconium business growth. The Group's core strategy will remain focused on optimization of product structures through developing and penetrating into the high-end zirconium chemicals market. At the same time, the Group will proactively yet prudently expanding into new energy-related business and extending into the zirconium downstream business.

FINANCIAL REVIEW

For the year ended 31 December 2010, the Group reported a consolidated turnover of RMB153,234,000, represented a year-to-year increase by 22%. Such increase was contributed by the sales growth in the zirconium chemicals business and rechargeable batteries business at a similar percentage. Net loss for the year was RMB145,006,000, primarily resulted from the additional impairment provision made for certain assets during the year, amounted to RMB117,312,000. Such provision was merely accounting adjustment which did not involve actual cash outflow. Without the impairment provision and its tax effect, the Group's net loss was RMB33,721,000. The Group continued to maintain a healthy financial position with net cash balance and nil debt.

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 2010 and 31 December 2009:



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 RMB116,788,000 (2009: RMB97,611,000), represented a 20% growth. Sales of zirconium oxides and zirconium carbonate remained as the core, which in aggregate contributed to 46.7% of the consolidated turnover.

Sales of new energy materials and rechargeable batteries both reported a double-digit growth at 33% and 22%, respectively. Sales of new energy materials was RMB20,918,000 (2009: RMB15,724,000), represented 13.7% of consolidated turnover; whereas the sales of rechargeable batteries was RMB15,528,000 (2009: RMB12,773,000) and 10.1% of consolidated turnover.

Gross Profit and Gross Margin

The Group reported a gross profit for the year of RMB12,862,000 (2009: gross loss of RMB20,577,000). The gross margin recovered to 8% in current year, from -16% in 2009. Improvement in gross margin was mainly attributable to the increased selling prices and reduced production fixed overheads of the zirconium chemicals. The average gross margin of batteries business has also increased from 23% in 2009 to 26% in 2010.

Management Discussion and Analysis

Distribution Costs and Administrative Expenses

Corresponding to the higher sales in current year, distribution costs had increased from RMB4,585,000 to RMB5,644,000. The Group was able to control the distribution costs at a reasonable level, which was around 4% of total sales in each year. Total administrative expenses increased in 2010 by approximately RMB15,399,000, mainly resulted from the recognition of the fair value at RMB13,039,000 for the share options granted during the year as equity-settled share-based payment expenses. There was no such expense incurred in prior year because the Company did not grant any share options in 2009. The effect of the share-based payment expenses had been partly offset by the decrease in most of the other administrative expense items. This was the result of the cost control measures effectively implemented by the management over the administrative expenses, such as salary, staff welfare, entertainment and travelling. The management will continue to closely monitor the cost and expenses which in turn can improve the overall profit-making ability of the Group. Impairment provision for non-current assets in the current year was RMB117,312,000, mainly comprised (i) the impairment of certain old machinery and equipment which were no longer in use at the Yixing plant after the relocation of certain production process to Binhai; and (ii) impairment of other non-current assets upon the overall impairment review in accordance with the IFRS requirement.

Capital Expenditure

The capital expenditures for the year ended 31 December 2010 and 2009 were approximately RMB72,425,000 and RMB80,418,000, respectively, which were mainly the cost of the construction works and machinery for the Binhai new plant.

Liquidity and Financial Resources

As at 31 December 2010, the Group's bank and cash balances were approximately RMB276,802,000 (2009: RMB230,136,000). Increase in balance mainly came from the proceeds of the shares placing transactions that were completed in 2010. The Group continued to maintain a strong and healthy financial structure with no debt.

The Group's trade receivables turnover days dropped from 85 days in 2009 to 58 days in 2010. The trade receivables turnover improved due to the tighter controls implemented by the management over the debt collection process. The Group has not experienced significant bad debt problem on trade receivables and continued to maintain a healthy record of trade receivables turnover.

The inventory balance as at 31 December 2010 decreased to RMB29,591,000 (2009: RMB30,301,000), which mainly represented the net effect of the reduced level of raw materials and higher balance of finished products. Inventory turnover days decreased from 96 days to 78 days because of the higher sales activities as well as the lower zircon stock balance being kept during the year. Management will continue to closely monitor the inventory level.

Management Discussion and Analysis

Share Capital Structure

On 29 January 2010, the Company issued 100,000,000 ordinary shares at a placing price of HK\$0.495 per share pursuant to a top-up placing and subscription agreement dated 20 January 2010. On 27 October 2010, the Company issued 221,000,000 ordinary shares at a placing price of HK\$0.324 per share pursuant to a top-up placing and subscription agreement dated 13 October 2010. On 10 December 2010, the Company issued 119,000,000 ordinary shares at a placing price of HK\$0.498 per share pursuant to a top-up placing and subscription agreement dated 29 November 2010. The total net proceeds of approximately HK\$167.3 million from these three top-up placing transactions are intended to be used to finance potential investment projects.

During the year ended 31 December 2010, options were exercised to subscribe for 8,200,000 ordinary shares in the Company at a consideration of RMB1,912,000.

On 4 November 2010, the Company announced the proposed acquisition of the entire equity interest in Muntari Holdings Limited, which is an investment holding company principally engaged in the wholesale and storage business of petrochemicals through certain contractual arrangement with its subsidiaries. This major acquisition transaction was completed on 6 January 2011. Detail information of the acquisition was disclosed in note 31 to the financial statements.

As at 31 December 2010, the total issued share capital of the Company was HK\$103,506,994 (approximately equivalent to RMB101,850,000) divided into 2,070,139,880 ordinary shares with a par value of HK\$0.05 each.

Exposure to Foreign Exchange Risk

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

Management Discussion and Analysis

Contingent Liabilities

As at 31 December 2010, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2010, the Group did not pledge any assets (2009: Nil) as securities for the banking facilities granted by its bankers.

Human Resources

As at 31 December 2010, the Group had a total of approximately 348 employees (2009: 618 employees). Total staff costs (including directors' emoluments) for the year was approximately RMB12,868,000 (2009: RMB20,568,000), representing 8% of the Group's turnover (2009: 16%). During the year, the average number of employees and total staff costs had decreased significantly because the Group has further streamlined the production process. In addition, the Group had temporarily suspended the production of a low-end zirconium chemical at Yixing plant and relied on supply (as raw materials for further processing into medium- or high-end zirconium chemicals) by external suppliers, which reduced the number of workers required.

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 61, 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 42, senior economist, is the Deputy 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 52, joined the Group in 1993. Mr. Zhou is the Deputy General Manager of Better Batteries, assisting the Chairman in the overall management of the Group and supervising the battery business. Mr. Zhou has extensive experience in business administration.

Mr. Li Fu Ping, aged 41, senior economist, is the Deputy General Manager of the Group. Mr. Li graduated from the Jiangsu University of Chemistry, where he majored in business administration, and was the chairman of the student union of the university. Since joining the Group in 1992, he has engaged in business administration and has been the secretary to the General Manager of the Group. As such, Mr. Li has accumulated extensive experience in business administration. He is a key member of the Group's internal audit committee for ISO9002 quality assurance accreditation and is in charge of the ISO14001 environmental management system. He is also responsible for intellectual property right management.

Mr. Fang Guo Hong, aged 45, 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.

Profile of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheng Faat Ting Gary, aged 43, was appointed as an independent non-executive director of the Company in November 2001. Dr. Cheng is the Chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Dr. Cheng holds a Doctor of Business Administration degree from the City University of Hong Kong with doctoral research area in "Independent Non-Executive Director and Corporate Governance". Dr. Cheng is a Fellow Certified Public Accountant in both Hong Kong and the United States of America ("USA") and a Certified Tax Advisor of the Taxation Institute of Hong Kong. Dr. Cheng received his Bachelor's degree in Accounting (Honours) and Master's degree of Business Administration from Southern Illinois University, USA, in 1992 and 1994 respectively. Dr. Cheng worked at the audit division of the international accounting firm, PricewaterhouseCoopers, and has over 17 years of experience in financial reporting, business advisory, auditing, accounting, tax investigation and liquidation. Dr. Cheng is currently the Managing Director of Gary Cheng CPA Limited. He is also a founding member of CityU Eminence Society.

Professor ("Prof.") Ji Chang Ming, aged 55, 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 39, was appointed as an independent non-executive director of the Company in January 2010. Mr. Poon had acted as the Chief Financial Officer in two companies listed on the Growth Enterprise Market of the Stock Exchange since 2002, and was mainly responsible for the overall financial management, internal control function and accounting function. Mr. Poon has over 14 years of experience in financial reporting, business advisory, auditing, taxation, accounting, merger and acquisition. Mr. Poon is a fellow member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He holds a Bachelor's degree in Administrative Studies with York University in Canada and a Master's degree in Practicing Accounting with Monash University in Australia. Mr. Poon had been working for an international accounting firm and was responsible for providing business advisory and assurance services for some listed clients. Mr. Poon is the independent non-executive director of The Quaypoint Corporation Limited (Stock code: 2330) and Sun International Group Limited (Stock code: 8029) since November 2006 and September 2008, respectively. Mr. Poon is the executive director of Hong Kong Life Group Holdings Limited (Stock code: 8212) since October 2010.

Profile of Directors and Senior Management

SENIOR MANAGEMENT

Ms. Li Mei Kuen, aged 42, is the Chief Financial Officer and Company Secretary of the Group. Ms. Li graduated from La Trobe University, Melbourne, Australia and received a bachelor degree in commerce (accounting). She is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Before joining the Group in 2004, Ms. Li has worked in two international accounting firms for over 9 years. She has been actively involved in the audit, listing and due diligence engagements of companies in various industries and has extensive experience in auditing and finance.

Ms. Sun Hong Di, aged 43, 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.

Ms. Wu Si Hui (also known as Wu Xi Wei), aged 42, 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.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

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

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

BOARD OF DIRECTORS

Composition

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

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

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 over one-third of the Board membership.

Biographies of all Directors are set out on pages 15 to 16.

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 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. Li Fu Ping	2/2
Mr. Fang Guo Hong	2/2
Dr. Cheng Faat Ting Gary	2/2
Prof. Ji Chang Ming	2/2
Mr. Poon Lai Yin Michael (Appointed on 29 January 2010) ¹	2/2
Mr. Victor Tong (Resigned on 29 January 2010) ¹	0/0

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

Corporate Governance Report

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.

Corporate Governance Report

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

- the interim results and annual audited financial statements;
- the auditing and financial reporting matters, including the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2009;
- 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 re-appointment of KPMG as the Company's external auditors for 2011. The recommendation will be put forward for the approval of the shareholders of the Company at the Annual General Meeting to be held on 27 May 2011.

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 2010, the Company's external auditors received approximately RMB1,485,000 for annual audit service and approximately RMB437,000 for non-audit services (including mainly the transaction advisory service) during the year.

(b) Remuneration Committee

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

Dr. Cheng Faat Ting Gary (*Chairman*)

Mr. Yang Xin Min

Prof. Ji Chang Ming

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

(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 and its 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.

Corporate Governance Report

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

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

Attendance Record at Board Committee Meetings

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

Directors	No. of meetings attended		
	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Yang Xin Min	N/A	1/1	N/A
Dr. Cheng Faat Ting Gary	2/2	1/1	1/1
Prof. Ji Chang Ming	2/2	1/1	1/1
Mr. Poon Lai Yin Michael (Appointed on 29 January 2010) ¹	2/2	N/A	0/0
Mr. Victor Tong (Resigned on 29 January 2010) ¹	0/0	N/A	1/1

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

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.

Corporate Governance Report

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 37 to 38.

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 Chairmen 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 2009 and Interim Report 2010 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 the Company's website at www.chinazirconium.com.hk.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials and rechargeable batteries.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 (the "Year") are set out in the consolidated income statement on page 39.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

The register of members of the Company will be closed from 25 May 2011 (Wednesday) to 27 May 2011 (Friday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the Company's annual general meeting to be held on 27 May 2011, 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 24 May 2011 (Tuesday):

In Hong Kong:

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

In Canada:

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

Directors' Report

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 26 to the financial statements.

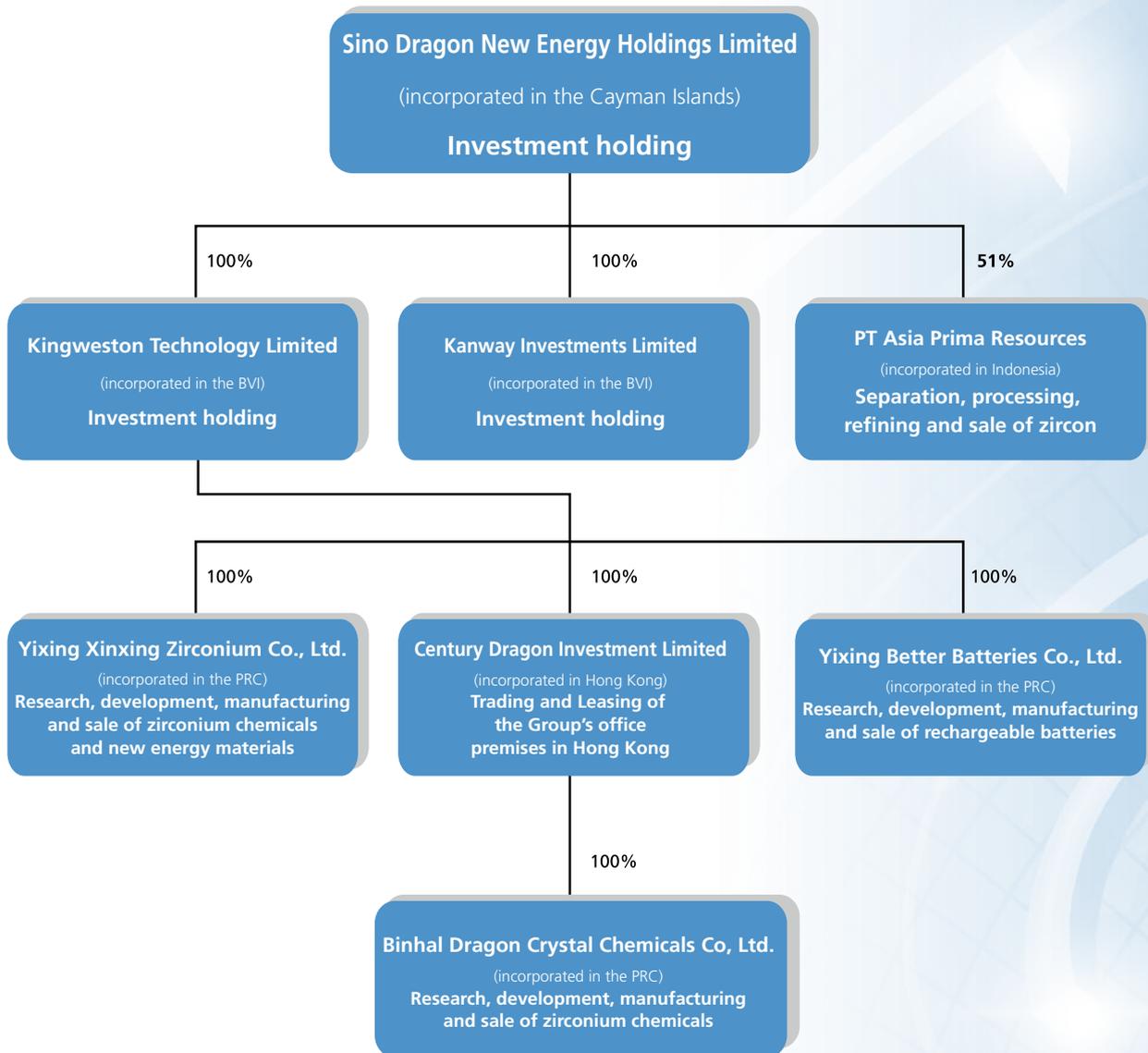
RESERVES

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 44.

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 2010 amounted to approximately RMB341,616,000 (2009: RMB236,260,000).

GROUP STRUCTURE



Directors' Report

DIRECTORS

The Directors who held office during the year and as at the date of this report are shown below. Their biographies are set out on pages 15 to 16.

Executive Directors

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

Independent Non-Executive Directors

Dr. Cheng Faat Ting Gary
Prof. Ji Chang Ming
Mr. Poon Lai Yin Michael (Appointed on 29 January 2010)
Mr. Victor Tong (Resigned on 29 January 2010)

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) 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 2010, 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:

Name of Director	Capacity	Nature of Interest	Number of Shares	Percentage of Total Share Capital
Yang Xin Min	Beneficial	Personal	595,981,880	28.79%
Huang Yue Qin	Beneficial	Personal	600,000	0.03%
Zhou Quan	Beneficial	Personal	360,000	0.02%
Li Fu Ping	Beneficial	Personal	480,000	0.02%
Fang Guo Hong	Beneficial	Personal	11,460,000	0.03%
Cheng Faat Ting Gary	Beneficial	Personal	200,000	0.01%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2010, so far as was known to the Directors and the chief executive of the Company, the following persons, other than a Director or chief executive of the Company, 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.

Name of Shareholder	Number of Shares	Percentage of Total Share Capital
Yang Xin Min	595,981,880	28.79%
CCB International (Holdings) Limited	142,400,000	6.88%

Directors' Report

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 "Scheme") was approved and adopted and, the Board may, at its discretion, grant options (the "Options") to Eligible Persons as defined in (ii) below. The Scheme will expire on 23 September 2012.

(i) Purpose

The purpose of the Scheme is to advance the interests of the Company and its shareholders by enabling the Company to grant Options to attract, retain and reward the Eligible Persons, to provide to the Eligible Persons a performance incentive for continued and improved services with the Company and its subsidiaries, and to enhance such persons' contribution to increase the profits by encouraging capital accumulation and share ownership.

(ii) Eligible Persons

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).

(iii) Maximum number of shares

- (a) The total number of Shares which may be issued upon exercise of all Options to be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the Scheme (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of counting the Scheme Mandate Limit.
- (b) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed in aggregate 30% of the Shares in issue from time to time ("Overall Scheme Limit"). No Options may be granted under any schemes of the Company (or its subsidiaries) if such grant will result in the Overall Scheme Limit being exceeded.

(iv) Maximum entitlement of each Eligible Person

The total number of Shares issued and to be issued upon exercise of the Options granted to such Eligible Person (including exercised, cancelled and outstanding Options) in any 12-month period must not exceed 1% of the Shares of the Company in issue (the "Individual Limit") at such time. Any further grant of Options in excess of the Individual Limit is subject to Shareholders' approval in general meeting of the Company and certain requirements as stipulated in the terms of the Scheme.

(v) Timing for exercise of Options

An Option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Board to the Option holder but may not be exercised after the expiry of ten years from the date on which the Option was granted.

(vi) Offer acceptance period and Option price

The Options must be accepted within 28 days from the date of grant, and the grantee must pay a non-remittable amount of HK\$1.00 to the company for each acceptance of grant.

Directors' Report

(vii) Subscription price

Pursuant to the Scheme, the subscription price shall be such price as the Board may in its absolute discretion determine at the time of the grant of the relevant Option but in any case the subscription price must be at least the highest of (i) closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

For the year ended 31 December 2010, 57,400,000 Options (2009: Nil) have been granted under the Scheme.

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

Name of Grantee	Date of Grant	Exercisable Period	Subscription Price per Share (Note 1)	Number of Options (Note 1)			
				Outstanding as at 31 December 2009	Granted during the year	Exercised or Expired during the year	Outstanding as at 31 December 2010
<i>Directors:</i>							
Yang Xin Min	15 August 2008	15 August 2008 to 15 August 2013	HK\$0.33	1,600,000	—	1,600,000	—
Yang Xin Min	31 May 2010	31 May 2010 to 30 May 2015	HK\$0.261	—	1,600,000	1,600,000	—
Zhou Quan	31 May 2010	31 May 2010 to 30 May 2015	HK\$0.261	—	600,000	600,000	—
Huang Yue Qin	31 May 2010	31 May 2010 to 30 May 2015	HK\$0.261	—	600,000	600,000	—
Li Fu Ping	31 May 2010	31 May 2010 to 30 May 2015	HK\$0.261	—	600,000	600,000	—
Fang Guo Hong	31 May 2010	31 May 2010 to 30 May 2015	HK\$0.261	—	600,000	600,000	—
Cheng Faat Ting Gary	31 May 2010	31 May 2010 to 30 May 2015	HK\$0.261	—	200,000	200,000	—
Ji Chang Ming	31 May 2010	31 May 2010 to 30 May 2015	HK\$0.261	—	200,000	—	200,000
Poon Lai Yin Michael	31 May 2010	31 May 2010 to 30 May 2015	HK\$0.261	—	200,000	200,000	—
Shi You Chun (Resigned)	15 August 2008	15 August 2008 to 31 December 2009	HK\$0.33	200,000	—	200,000	—

Directors' Report

Name of Grantee	Date of Grant	Exercisable Period	Subscription Price per Share (Note 1)	Number of Options (Note 1)			
				Outstanding as at 31 December 2009	Granted during the year	Exercised or Expired during the year	Outstanding as at 31 December 2010
Carl Steiss (Resigned)	15 August 2008	15 August 2008 to 21 March 2010	HK\$0.33	200,000	—	200,000	—
Victor Tong (Resigned)	1 December 2008	1 December 2008 to 28 April 2010	HK\$0.1425	200,000	—	200,000	—
Subtotal				<u>2,200,000</u>	<u>4,600,000</u>	<u>6,600,000</u>	<u>200,000</u>
<i>Employees in aggregate:</i>	31 May 2010	31 May 2010 to 30 May 2015	HK\$0.261	—	1,800,000	1,800,000	—
<i>Other consultants :</i>							
Goldpac Investments Ltd.	15 August 2008	15 August 2008 to 15 August 2013	HK\$0.33	600,000	—	—	600,000
Others in aggregate	3 December 2010	3 December 2010 to 2 December 2012	HK\$0.68	—	51,000,000	—	51,000,000
Subtotal				<u>600,000</u>	<u>51,000,000</u>	<u>—</u>	<u>51,600,000</u>
Grand Total				<u>2,800,000</u>	<u>57,400,000</u>	<u>8,400,000</u>	<u>51,800,000</u>

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

The following connected transactions have been carried out by the Group during the Year:

Trademark

Pursuant to the trademark licensing agreement dated 12 July 2000 entered into between Jiangsu Xinxing Chemicals Group Corp. ("Xinxing Chemicals Group") and Yixing Xinxing Zirconium Co., Ltd. ("Yixing Zirconium"), Xinxing Chemicals Group has agreed to grant an exclusive license to Yixing Zirconium or the Group to use the "Long Jing" trademarks in the PRC, the USA and Japan respectively, during their respective legally valid periods at nil consideration. Xinxing Chemicals Group is beneficially owned by Mr. Yang Xin Min, and Yixing Zirconium is a wholly-owned subsidiary of the Company. Accordingly, the transactions contemplated under the trademark licensing agreement constitutes a connected transaction pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") upon the listing of the shares of the Company on the Stock Exchange.

This transaction falls within the de minimis provision under Rule 14.24(5) of the Listing Rules. Accordingly, upon the listing of the Company's shares on the Stock Exchange, the trademark licensing agreement will not be subject to disclosure or shareholders' approval requirements.

Save as disclosed above, no other transactions 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 18 to 24.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 13% and 41% 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 17% and 62% 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 2010, the Group made RMB250,000 donations to charitable organisations and charity funds in the PRC (2009: RMB328,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

Directors' Report

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 SUBSEQUENT EVENTS

Details of non-adjusting subsequent events are set out in note 31 to the financial statements.

AUDITORS

KPMG, Hong Kong (KPMG) was appointed as auditors of the Company on 9 February 2011 upon the resignation of KPMG LLP, Canada.

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

By order of the Board
Huang Yue Qin
Executive Director

30 March 2010



to the shareholders of

Sino Dragon New Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sino Dragon New Energy Holdings Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 39 to 123 which comprise the consolidated and company statements of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

Independent auditor's report

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 and of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2011

Consolidated income statement

for the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Turnover	3	153,234	126,108
Cost of sales	18	(140,372)	(146,685)
Gross profit/(loss)		12,862	(20,577)
Other net income	4	490	626
Distribution costs		(5,644)	(4,585)
Administrative expenses		(39,060)	(23,661)
Other operating expenses		(1,750)	(5,268)
Impairment of non-current assets	12(c)	(117,312)	(342,519)
Loss from operations		(150,414)	(395,984)
Net finance (costs)/income	5(a)	(619)	278
Loss before taxation	5	(151,033)	(395,706)
Income tax credit	6(a)	6,027	93,470
Loss for the year		(145,006)	(302,236)
Attributable to:			
Equity shareholders of the Company		(144,739)	(296,430)
Non-controlling interests		(267)	(5,806)
Loss for the year		(145,006)	(302,236)
Loss per share			
Basic (cents)	10(a)	(8.21)	(23.8)
Diluted (cents)	10(b)	(8.20)	(23.8)

The notes on pages 48 to 123 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the loss for the previous year are set out in note 26(b).

Consolidated statement of comprehensive income

for the year ended 31 December 2010
(Expressed in Renminbi)

	2010 RMB'000	2009 RMB'000
Loss for the year	<u>(145,006)</u>	<u>(302,236)</u>
Other comprehensive income for the year (after tax and reclassification adjustments)		
Exchange differences on translation of:		
— financial statements of operations outside the People's Republic of China ("the PRC")	<u>(1,228)</u>	<u>1,981</u>
	<u>(1,228)</u>	<u>1,981</u>
Total comprehensive income for the year	<u>(146,234)</u>	<u>(300,255)</u>
Attributable to:		
Equity shareholders of the Company	<u>(145,974)</u>	<u>(295,561)</u>
Non-controlling interests	<u>(260)</u>	<u>(4,694)</u>
Total comprehensive income for the year	<u>(146,234)</u>	<u>(300,255)</u>

The notes on pages 48 to 123 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	12	69,345	118,944
Construction in progress	13	76	1,779
Lease prepayments	14	62,796	64,510
Intangible assets	15	6	28
Long-term prepayments	17	11,053	8,129
Deferred tax assets	25(b)	105,213	99,186
Total non-current assets		248,489	292,576
Current assets			
Inventories	18	29,591	30,301
Trade and other receivables and prepayments	19	53,481	31,328
Amounts due from related parties	21 and 29(b)	863	64
Lease prepayments	14	1,597	1,597
Cash and cash equivalents	20	276,802	230,136
Total current assets		362,334	293,426
Total assets		610,823	586,002
Current liabilities			
Trade and other payables	22	62,483	48,936
Amounts due to related parties	21 and 29(b)	1,522	2,733
Current taxation	25(a)	19,637	19,637
Total current liabilities		83,642	71,306

Consolidated statement of financial position

at 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Net current assets		<u>278,692</u>	<u>222,120</u>
Total assets less current liabilities		<u>527,181</u>	<u>514,696</u>
NET ASSETS		<u>527,181</u>	<u>514,696</u>
CAPITAL AND RESERVES			
Share capital	26(c)	101,850	82,598
Reserves		504,501	366,269
(Accumulated losses)/retained profits		<u>(79,169)</u>	<u>65,570</u>
Total equity attributable to equity shareholders of the Company		527,182	514,437
Non-controlling interests		<u>(1)</u>	<u>259</u>
TOTAL EQUITY		<u>527,181</u>	<u>514,696</u>

Approved and authorised for issue by the board of directors on 30 March 2011

Director

Director

The notes on pages 48 to 123 form part of these financial statements.

Statement of financial position

at 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Investments in subsidiaries	16	269,250	256,154
Current assets			
Other receivables	19	12,179	12,712
Cash and cash equivalents	20	118,963	11,674
		131,142	24,386
Current liabilities			
Other payables	22	2,264	1,813
Amounts due to related parties	21	2,735	6,970
		4,999	8,783
Net current assets		126,143	15,603
NET ASSETS		395,393	271,757
CAPITAL AND RESERVES			
	26(a)		
Share capital		101,850	82,598
Reserves		368,629	242,259
Accumulated losses		(75,086)	(53,100)
TOTAL EQUITY		395,393	271,757

Approved and authorised for issue by the board of directors on 30 March 2011

Director

Director

The notes on pages 48 to 123 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2010

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital	Merger reserve	Share premium	Statutory reserves	Capital reserve	Exchange reserve	Retained	Total	Non- controlling interests	Total
							profits/ losses)			
							(accumulated			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(Note 26(c))	(Note 26(e))	(Note 26(e))	(Note 26(e))	(Note 26(e))	(Note 26(e))	(Note 26(e))				
Balance at 1 January 2009	74,242	(11,085)	271,980	92,749	637	(5,899)	362,000	784,624	3,859	788,483
Changes in equity for 2009:										
Loss for the year	—	—	—	—	—	—	(296,430)	(296,430)	(5,806)	(302,236)
Other comprehensive income	—	—	—	—	—	869	—	869	1,112	1,981
Total comprehensive income	—	—	—	—	—	869	(296,430)	(295,561)	(4,694)	(300,255)
Shares issued under placement, net of issuance costs	8,206	—	19,963	—	—	—	—	28,169	—	28,169
Shares issued under share option scheme	150	—	1,201	—	(362)	—	—	989	—	989
Dividends approved during the year	—	—	(3,784)	—	—	—	—	(3,784)	—	(3,784)
Capital injection by non-controlling interests	—	—	—	—	—	—	—	—	1,094	1,094
Balance at 31 December 2009	82,598	(11,085)	289,360	92,749	275	(5,030)	65,570	514,437	259	514,696

Consolidated statement of changes in equity

for the year ended 31 December 2010

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
		Merger	Share	Statutory	Capital	Exchange	Retained		Non-	
	Share capital	reserve	premium	reserves	reserve	reserve	profits/ (accumulated losses)	Total	controlling interests	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Note 26(c))	(Note 26(e))	(Note 26(e))	(Note 26(e))	(Note 26(e))	(Note 26(e))	(Note 26(e))				
Balance at 1 January 2010	82,598	(11,085)	289,360	92,749	275	(5,030)	65,570	514,437	259	514,696
Changes in equity for 2010:										
Loss for the year	—	—	—	—	—	—	(144,739)	(144,739)	(267)	(145,006)
Other comprehensive income	—	—	—	—	—	(1,235)	—	(1,235)	7	(1,228)
Total comprehensive income	—	—	—	—	—	(1,235)	(144,739)	(145,974)	(260)	(146,234)
Shares issued under placement, net of issuance costs	18,902	—	124,866	—	—	—	—	143,768	—	143,768
Shares issued under share option scheme	350	—	2,476	—	(914)	—	—	1,912	—	1,912
Equity settled share-based transactions	—	—	—	—	13,039	—	—	13,039	—	13,039
Balance at 31 December 2010	101,850	(11,085)	416,702	92,749	12,400	(6,265)	(79,169)	527,182	(1)	527,181

The notes on pages 48 to 123 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Cash used in operations	20(b)	(32,262)	(8,974)
Income tax paid		—	—
Net cash used in operating activities		(32,262)	(8,974)
Investing activities			
Payment for the purchase of property, plant and equipment		(4,304)	(51,300)
Proceeds from disposal of property, plant and equipment		—	900
Payment for construction in progress		(46,290)	(6,506)
Increase in long-term prepayments		(12,852)	(1,925)
Interest received		114	135
Withdrawal/(placement) of deposits maturing beyond three months when placed		162	(162)
Net cash used in investing activities		(63,170)	(58,858)
Financing activities			
Repayment of bank borrowings		—	(6,832)
Proceeds from shares issued, under placement, net of issuance costs	26(d)	143,768	28,169
Proceeds from exercise of share options	26(d)	1,912	988
Capital contribution from non-controlling interests		—	1,094
Dividends paid to equity shareholders of the Company	26(b)	—	(3,784)
Interest paid	5(a)	—	(51)
Net cash generated from financing activities		145,680	19,584

Consolidated cash flow statement

for the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Net increase/(decrease) in cash and cash equivalents		50,248	(48,248)
Cash and cash equivalents at 1 January		229,974	278,403
Effect of foreign exchange rate changes		<u>(3,420)</u>	<u>(181)</u>
Cash and cash equivalents at 31 December	20	<u>276,802</u>	<u>229,974</u>

The notes on pages 48 to 123 form part of these financial statements.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies

Sino Dragon New Energy Holdings Limited (the "Company") was incorporated in the Cayman Islands on 18 July 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's principal place of business is No.68 Hongxin Road, Xushe Town, Yixing City, Jiangsu Province, the PRC. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") in 2002 and on Toronto Stock Exchange ("TSX") in 2008. On 30 September 2009, the Company voluntarily delisted and ceased trading on the TSX.

The consolidated financial statements of the Company as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group principally is engaged in the manufacture and trading of zirconium compounds, new energy materials and rechargeable batteries.

(a) Statement of compliance

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

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis. Items included in the financial statements of each entity comprising the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). For the purposes of presenting the consolidated financial statements, the Group adopted Renminbi as its presentation currency, rounded to the nearest thousand.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

(b) Basis of preparation *(continued)*

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

(c) Subsidiaries and non-controlling interests

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

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 1(m) depending on the nature of the liability.

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

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

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

(d) Property, plant and equipment

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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

- Buildings held for own use which are situated on leasehold land classified as held under operating leases are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Machinery and equipment 4 - 20 years
- Office equipment and fixtures 4 - 8 years
- Motor vehicles 4 - 8 years

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

(e) Construction in progress

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

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

(f) Lease prepayments

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

(g) Intangible assets

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

Technical know-how acquired by the Group is stated in the consolidated statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(i)).

Technical know-how is amortised from the date it is available for use and the amortisation is charged to profit or loss on a straight-line basis over its estimated useful life of 5 years.

Both the useful life and method of amortisation are reviewed annually.

(h) Operating lease charges

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(i) Impairment of assets

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).
- For current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

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

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

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

(ii) Impairment of other assets

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

- property, plant and equipment;
- lease prepayments;
- intangible assets;
- construction in progress; and
- long-term prepayments.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

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

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

(j) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(k) Trade and other receivables

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

(l) Interest-bearing borrowings

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

(m) Trade and other payables

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

(n) Cash and cash equivalents

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

(o) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(p) Share-based payments

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

(q) Income tax

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

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

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

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

(q) Income tax *(continued)*

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(r)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(r)(ii).

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (continued)

(r) Provisions and contingent liabilities (continued)

(ii) Other provisions and contingent liabilities

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

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

(s) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

(s) Revenue recognition *(continued)*

(iii) Government grants

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

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

(u) Borrowing costs

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

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

(v) Earnings per share

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

(w) Dividends

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies *(continued)*

(x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(y) Segment reporting

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies

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

- IFRS 3 (revised 2008), Business combinations
- Amendments to IAS 27, Consolidated and separate financial statements
- Improvements to IFRSs (2009)

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

The developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3 and IAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies (continued)

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:
 - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the acquiree has accumulated tax losses or other deductible temporary differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
 - In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies *(continued)*

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other deductible temporary differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

- If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
- If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if re-acquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies *(continued)*

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.
- As a result of the amendment to IAS 17, Leases, arising from the "Improvements to IFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate. This change in accounting policy has no material impact on the current or previous periods as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

3 Turnover

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

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

	2010 RMB'000	2009 <i>RMB'000</i>
Sales of zirconium and new energy materials	137,706	113,202
Sales of rechargeable batteries	15,528	12,773
Sales of mineral resources	—	133
	153,234	126,108

The Group's customer base is diversified and includes only two customers with whom transactions have exceeded 10% of the Group's revenues. In 2010 revenues from sales of zirconium compounds to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB36 million (2009: RMB39 million) and all related to the sale of zirconium compounds. Details of concentrations of credit risk arising from these customers are set out in note 27(a).

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

4 Other net income

	2010 RMB'000	2009 <i>RMB'000</i>
Government grants	631	666
Others	(141)	(40)
	490	626

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

5 Loss before taxation

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

(a) Net finance costs/(income)

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Interest income	(114)	(135)
Interest on bank borrowings wholly repayable within five years	—	51
Net exchange loss/(gain)	733	(194)
	<u>619</u>	<u>(278)</u>

(b) Staff costs

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Salaries, wages and other benefits	11,234	19,322
Contributions to defined contribution retirement schemes	928	1,246
Equity-settled share-based payment expenses (note 24)	706	—
	<u>12,868</u>	<u>20,568</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

5 Loss before taxation (continued)

(c) Other items

	2010 RMB'000	2009 RMB'000
Depreciation	7,160	19,303
Amortisation		
— lease prepayments	1,714	1,714
— intangible assets	9	87
Reversal of impairment of trade receivables (note 19(b))	—	(1,035)
Impairment of trade receivables (note 19(b))	45	—
Bad debt written off	4,432	687
Research and development costs	—	750
Loss on disposal of property, plant and equipment	—	3,306
Auditors' remuneration		
— audit services	1,485	1,843
— other services	437	343
Operating lease charges in respect of office premises in Hong Kong	710	772
Equity-settled share-based payment expenses in respect of the Company's consultants	12,333	—
Cost of inventories (note 18) #	140,372	146,685

Cost of inventories includes RMB13,536,000 (2009: RMB32,006,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these type of expenses.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Current tax - PRC Corporate Income Tax		
Provision for the year	—	—
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	<u>(6,027)</u>	<u>(93,470)</u>
	<u>(6,027)</u>	<u>(93,470)</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision for Hong Kong Profits Tax has been made as the Group did not earn any profits assessable to Hong Kong Profits Tax for the years ended 31 December 2009 and 2010.
- (iii) Pursuant to the Corporate Income Tax Law of the PRC ("PRC Tax Law") effective from 1 January 2008, the Group's subsidiaries in the PRC are subject to Corporate Income Tax ("CIT") at a tax rate of 25% on the assessable profits for the year.

No CIT provision has been made for Yixing Xinxing Zirconium Company Limited ("YXZL") for 2009 and 2010 as YXZL incurred tax losses for the year.

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

6 Income tax in the consolidated income statement (continued)

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

Binhai Dragon Crystal Chemicals Company Limited ("BHDC") did not have any assessable profits for both 2009 and 2010, and therefore, no CIT provision has been made for BHDC.

- (iv) Pursuant to the Income Tax Law in Indonesia, P.T. Asia Prima Resources ("APR") is subject to corporate income tax at progressive rates ranging from 10% - 30%, based on the level of assessable profit earned by the enterprise. No corporate income tax provision has been made as it has no assessable profits for both 2009 and 2010.
- (v) In addition, the Group is subject to withholding tax at the rate of 10% (unless reduced by treaty) on distributions of profits generated after 31 December 2007 from the subsidiaries in the PRC.

Deferred tax liabilities have been recognised in this regard based on the expected dividends to be distributed from the Company's subsidiaries in the PRC in the foreseeable future in respect of their profits generated after 31 December 2007.

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

	2010 RMB'000	2009 RMB'000
Loss before taxation	<u>(151,033)</u>	<u>(395,706)</u>
Notional tax on loss before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	(32,651)	(96,815)
Tax effect on temporary differences and tax losses not recognised	26,632	3,369
Tax effect of tax concessions	(369)	(465)
Others	<u>361</u>	<u>441</u>
Actual tax credit	<u>(6,027)</u>	<u>(93,470)</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

7 Directors' remuneration

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

7 Directors' remuneration (continued)

	Fees	Salaries, allowances and other benefits	Contributions to retirement scheme	Sub-total	Share-based payments (note)	2009 Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors						
Mr Yang Xin Min	—	1,608	3	1,611	—	1,611
Mr Li Fu Ping	—	240	3	243	—	243
Ms Huang Yue Qin	—	437	3	440	—	440
Mr Zhou Quan	—	240	3	243	—	243
Mr Fang Guo Hong	—	33	—	33	—	33
Independent non-executive directors						
Mr Cheng Faat Ting Gary	70	—	—	70	—	70
Mr Ji Chang Ming (appointed on 22 December 2009)	2	—	—	2	—	2
Mr Andrew Leinwand (resigned on 1 June 2009)	24	—	—	24	—	24
Mr Carl Steiss (resigned on 22 December 2009)	61	—	—	61	—	61
Mr Victor Tong (resigned on 29 January 2010)	61	—	—	61	—	61
	<u>218</u>	<u>2,558</u>	<u>12</u>	<u>2,788</u>	<u>—</u>	<u>2,788</u>

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

7 Directors' remuneration (continued)

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(p) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 24.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2009: four) are also directors whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the other one (2009: one) individual are as follows:

	2010 RMB'000	2009 <i>RMB'000</i>
Salaries and other emoluments	824	744
Contributions to retirement benefit scheme	10	11
Share-based payments	66	—
	900	755

The emoluments of the one (2009: one) individual with the highest emoluments are within the following band:

	2010 Number of Individuals	2009 <i>Number of</i> <i>Individuals</i>
HK\$Nil to HK\$1,000,000	1	1

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

9 Loss attributable to equity shareholders of the Company

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB21,986,000 (2009: RMB26,163,000) which has been dealt with in the financial statements of the Company.

10 Loss per share

(a) Basic loss per share

The calculation of loss per share is based on the loss attributable to equity shareholders of the Company for the year of RMB144,739,000 (2009: RMB296,430,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2010 of 1,762,021,524 (2009: 1,491,685,633).

Weighted average number of ordinary shares:

	2010 '000	2009 '000
Issued ordinary shares at 1 January	1,621,940	71,617
Effect of shares issued under placement	139,463	2,959
Effect of share subdivision of ordinary shares	—	1,416,940
Effect of share options exercised	619	170
Weighted average number of ordinary shares	<u>1,762,022</u>	<u>1,491,686</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

10 Loss per share (continued)

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company of RMB144,739,000 (2009: RMB296,430,000) and the weighted average number of ordinary shares in issue during the year after adjusting for the effect of potential dilutive shares, assuming they were exercised:

Weighted average number of ordinary shares (diluted):

	2010 '000	2009 '000
Weighted average number of ordinary shares	1,762,022	1,491,686
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	2,759	100
Weighted average number of ordinary shares (diluted)	<u>1,764,781</u>	<u>1,491,786</u>

11 Segment reporting

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

11 Segment reporting *(continued)*

(a) Segment results, assets and liabilities

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

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

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

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

11 Segment reporting (continued)

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2010 and 2009 is set out below.

	YXZL		YBBL		BHDC		APR		Total	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Revenue from external customers	137,706	113,202	15,528	12,773	—	—	—	133	153,234	126,108
Inter-segment revenue	3,116	1,792	—	—	—	—	—	4,284	3,116	6,076
Reportable segment revenue	140,822	114,994	15,528	12,773	—	—	—	4,417	156,350	132,184
Reportable segment (loss)/profit (adjusted (loss)/profit before taxation)	(96,021)	(279,419)	3,181	2,755	(34,968)	(97,997)	(541)	(11,850)	(128,349)	(386,511)
Net finance (costs)/income	(644)	(84)	4	7	5	4	—	(120)	(635)	(193)
Depreciation and amortisation for the year	8,196	20,001	316	397	358	358	—	337	8,870	21,093
Impairment of non-current assets	84,541	239,269	—	—	32,767	96,715	4	6,535	117,312	342,519
Reportable segment assets	407,719	491,415	21,204	18,640	76,438	19,279	—	618	505,361	529,952
Additions to non-current segment assets during the year	4,567	50,625	185	341	67,659	29,394	4	48	72,415	80,408
Reportable segment liabilities	(162,362)	(150,038)	(2,742)	(3,361)	(121,373)	(45,555)	(2)	(89)	(286,479)	(199,043)

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

11 Segment reporting (continued)

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

	2010 RMB'000	2009 RMB'000
Revenue		
Reportable segment turnover	156,350	132,184
Elimination of inter-segment revenue	<u>(3,116)</u>	<u>(6,076)</u>
Consolidated turnover	<u>153,234</u>	<u>126,108</u>
Loss		
Reportable segment loss	(128,349)	(386,511)
Unallocated head office and corporate expenses	<u>(22,684)</u>	<u>(9,195)</u>
Consolidated loss before taxation	<u>(151,033)</u>	<u>(395,706)</u>
Assets		
Reportable segment assets	505,361	529,952
Elimination of inter-segment receivables	<u>(121,329)</u>	<u>(57,292)</u>
	384,032	472,660
Deferred tax assets	105,213	99,186
Unallocated head office and corporate assets	<u>121,578</u>	<u>14,156</u>
Consolidated total assets	<u>610,823</u>	<u>586,002</u>
Liabilities		
Reportable segment liabilities	286,479	199,043
Elimination of inter-segment payables	<u>(205,951)</u>	<u>(145,381)</u>
	80,528	53,662
Unallocated head office and corporate liabilities	<u>3,114</u>	<u>17,644</u>
Consolidated total liabilities	<u>83,642</u>	<u>71,306</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

12 Property, plant and equipment

	The Group				Total RMB'000
	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	
Cost:					
At 1 January 2009	113,834	283,384	1,715	7,039	405,972
Exchange adjustments	334	454	10	16	814
Additions	28,284	25,081	25	—	53,390
Transfer from construction in progress (note 13)	28,148	—	—	—	28,148
Disposals	(3,262)	(12,349)	(699)	(977)	(17,287)
At 31 December 2009	<u>167,338</u>	<u>296,570</u>	<u>1,051</u>	<u>6,078</u>	<u>471,037</u>
At 1 January 2010	167,338	296,570	1,051	6,078	471,037
Exchange adjustments	—	—	(10)	—	(10)
Additions	1,503	551	21	2,229	4,304
Transfer from construction in progress (note 13)	43,339	109,235	—	—	152,574
At 31 December 2010	<u>212,180</u>	<u>406,356</u>	<u>1,062</u>	<u>8,307</u>	<u>627,905</u>
Accumulated depreciation and impairment losses:					
At 1 January 2009	25,262	72,744	1,404	3,376	102,786
Exchange adjustments	14	26	3	3	46
Charge for the year	5,092	13,310	150	751	19,303
Impairment loss (note (c))	92,937	148,468	120	1,514	243,039
Written back on disposals	(2,458)	(9,664)	(699)	(260)	(13,081)
At 31 December 2009	<u>120,847</u>	<u>224,884</u>	<u>978</u>	<u>5,384</u>	<u>352,093</u>
At 1 January 2010	120,847	224,884	978	5,384	352,093
Exchange adjustments	—	—	(10)	—	(10)
Charge for the year	1,934	4,742	36	448	7,160
Impairment loss (note (c))	32,477	83,916	11	—	116,404
Transfer from construction in progress (note 13)	41,650	41,263	—	—	82,913
At 31 December 2010	<u>196,908</u>	<u>354,805</u>	<u>1,015</u>	<u>5,832</u>	<u>558,560</u>
Net book value:					
At 31 December 2010	<u>15,272</u>	<u>51,551</u>	<u>47</u>	<u>2,475</u>	<u>69,345</u>
At 31 December 2009	<u>46,491</u>	<u>71,686</u>	<u>73</u>	<u>694</u>	<u>118,944</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

12 Property, plant and equipment (continued)

Notes:

- (a) All of the Group's buildings and machinery and equipment are located in the PRC and Indonesia.
- (b) At 31 December 2010, 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 RMB7,376,000 (2009: RMB66,260,000).
- (c) During 2009, the Group experienced a significant drop in demand for its zirconium and related products under the prevailing market environment and consequently recorded operating losses. The directors considered that the existence of the above conditions indicated that non-current assets of the Group's operating subsidiaries in the PRC and Indonesia may be impaired. In view of this, the directors prepared a cash flow projection to estimate the recoverable amount of these assets and recognised an impairment loss of RMB342,519,000 against these non-current assets for that year.

During 2010, a number of machines were considered obsolete by the Group. As a result, the carrying amount of the machines are fully written off and impairment losses of RMB21,348,000 is recognised.

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

The impairment losses of non-current assets of the Group charged to profit or loss for the year ended 31 December 2010 of RMB117,312,000 (2009: RMB342,519,000) can be further analysed as follows:

	Note	The Group	
		2010 RMB'000	2009 RMB'000
Property, plant and equipment		116,404	243,039
Construction in progress	13	163	83,039
Lease prepayments	14	—	1,996
Intangible assets	15	13	59
Long-term prepayments	17	732	14,386
Charged to profit or loss		117,312	342,519

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

12 Property, plant and equipment (continued)

Notes: (continued)

(c) (continued)

The estimates of recoverable amount at 31 December 2010 were determined based on a value in use calculation using cash flow projections based on the five-year financial forecast approved by the directors, and a pre-tax discount rate.

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

Key assumptions used for the value in use calculation:

— Sales volume growth rate	10%–15%
— Gross contribution rate	7%–16%
— Pre-tax discount rate	14%–15%

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

13 Construction in progress

	The Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	1,779	85,938
Additions	68,121	27,028
Transfer to property, plant and equipment (note 12)	(69,661)	(28,148)
Impairment loss (note 12(c))	(163)	(83,039)
At 31 December	76	1,779

Construction in progress as at 31 December 2010 comprises costs incurred on buildings under construction and plant and equipment under installation.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

14 Lease prepayments

	The Group	
	2010	2009
	RMB'000	<i>RMB'000</i>
Costs:		
At 1 January	81,023	80,860
Exchange adjustments	<u>—</u>	<u>163</u>
At 31 December	81,023	81,023
Accumulated amortisation and impairment loss:		
At 1 January	14,916	11,206
Charge for the year	1,714	1,714
Impairment loss (note 12(c))	<u>—</u>	<u>1,996</u>
At 31 December	16,630	14,916
Net book value:		
At 31 December	64,393	66,107
Current portion	(1,597)	(1,597)
Non-current portion	62,796	64,510

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

15 Intangible assets

The Group

	Technical know-how	
	2010	2009
	RMB'000	RMB'000
Cost:		
At 1 January and 31 December	4,345	4,345
Accumulated amortisation:		
At 1 January	4,317	4,171
Charge for the year	9	87
Impairment loss (note 12(c))	13	59
At 31 December	4,339	4,317
Net book value:		
At 31 December	6	28

Technical know-how mainly represents a production technology in respect of rechargeable batteries acquired from a third party at a cost of RMB3,500,000 in 2003 and is amortised over the estimated useful life of 5 years. The amortisation charge for the year is included in administrative expenses in the consolidated income statement.

16 Investments in subsidiaries

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	32,047	33,051
Less: Impairment loss	(17,439)	(17,891)
	14,608	15,160
Amounts due from subsidiaries (Note (i))	254,642	240,994
	269,250	256,154

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

16 Investments in subsidiaries (continued)

Details of the Company's subsidiaries as at 31 December 2010 are as follows:

Name of Company	Place of incorporation/ establishment	Issued and fully paid up/ registered capital	Proportion of ownership interest		Principal activity
			held by the Company	held by subsidiaries	
Kingweston Technology Limited	British Virgin Islands ("BVI")	US\$2,500,000	100%	—	Investment holding in Hong Kong
P.T. Asia Prima Resources ("APR")	Indonesia	US\$1,900,000	51%	—	Separation, processing and refining of zircon sand contracting and management of mining concession and the sale of zircon products
Binhai Dragon Crystal Chemicals Company Limited ("BHDC")*	The PRC	US\$12,410,550	—	100%	Research, development, manufacturing and sales of zirconium compounds
Century Dragon Investment Limited ("CDIL")	Hong Kong ("HK")	HK\$15,000,000	—	100%	Leasing of the Group's office premises in Hong Kong, provision of administrative Services and general trading in Hong Kong
Yixing Better Batteries Company Limited ("YBBL")*	The PRC	US\$4,200,000	—	100%	Research, development, manufacturing and sales of rechargeable batteries
Yixing Xinxing Zirconium Company Limited ("YXZL")*	The PRC	US\$13,100,000	—	100%	Research, development, manufacturing and sales of zirconium compounds, electronic materials, electronics ceramics and new energy materials
Kanway Investment Limited ("KW")	BVI	US\$50,000	100%	—	Investment holding in Hong Kong

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

16 Investments in subsidiaries (continued)

Notes :

- (i) The amounts due from subsidiaries as at 31 December 2009 and 2010 are unsecured, non-interest bearing and repayable on demand.
- (ii) BHDC, YBBL and YXZL are Foreign Investment Enterprises established pursuant to the law of the PRC. YBBL and YXZL have an operating period of 30 years expiring on 4 January 2034 and 6 June 2030 respectively whereas BHDC has an operating period of 50 years expiring on 30 August 2057.
- (iii) On 16 January 2009, the Company injected an additional capital of US\$204,000 (approximately to RMB1,138,000) to APR.
- (iv) On 25 September 2009, CDIL injected an additional capital of US\$1,005,000 (approximately to RMB6,864,000) to BHDC.
- (v) In late December 2009, the zircon sand processing plant area of APR was sealed off by the local government authority of Indonesia, pending for the investigation of certain mineral supplies being made to the plant by certain suppliers without proper mining license. Based on available facts and circumstances, the directors of the Company were of the view that there was no indication of potential litigation against APR or the Group in respect of this matter at the reporting date. As the Group was uncertain on when APR would resume access to the zircon sand processing plant, the directors of the Company decided to make a full provision for the impairment losses of the assets of APR totalling RMB9,138,000 as at 31 December 2009. As at 31 December 2010, the premises of APR remained sealed off.

On 22 February 2011, the Indonesian police department has 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 APR is still in the process of applying for the re-opening of the plant, the Company's directors considered to maintain the full provision for the impairment losses of the assets of APR.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

17 Long-term prepayments

As at 31 December 2010, the Group had made prepayments of RMB11,053,000 (2009: RMB8,129,000), after net of impairment loss of RMB732,000 (note 12(c)) (2009: RMB14,386,000, for the acquisition of land use rights in the PRC and machinery and equipment for the manufacturing plants under development. The corresponding certificates of land use rights are under application.

18 Inventories

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

	The Group	
	2010 RMB'000	2009 RMB'000
Raw materials	9,469	13,034
Work in progress	3,807	4,997
Finished goods	16,315	12,270
	29,591	30,301

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

18 Inventories (continued)

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

	The Group	
	2010 RMB'000	2009 RMB'000
Carrying amount of inventories sold	140,372	143,047
Write-down of inventories	—	3,739
Reversal of write-down of inventories	—	(101)
Cost of inventories	<u>140,372</u>	<u>146,685</u>

The reversal of write-down of inventories made in prior years arose due to sales of certain batteries products at an increased net realisable value.

19 Trade and other receivables and prepayments

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Trade receivables	24,541	24,233	—	—
Less: Allowance for doubtful debts (note 19(b))	(599)	(1,479)	—	—
	<u>23,942</u>	<u>22,754</u>	<u>—</u>	<u>—</u>
Advance payments to suppliers	16,024	3,899	—	—
Deposits and prepayments	4,928	929	—	—
Dividend receivable	—	—	11,826	12,323
Other receivables	8,587	3,746	353	389
	<u>53,481</u>	<u>31,328</u>	<u>12,179</u>	<u>12,712</u>

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

19 Trade and other receivables and prepayments (continued)

(a) Ageing analysis

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Current	21,116	17,398
Less than 3 months past due	2,797	4,001
More than 3 months but less than 1 year past due	29	1,324
Over 1 year past due	—	31
Amounts past due	2,826	5,356
	23,942	22,754

Trade receivables are normally due within 30 to 90 days from the date of billing. Further details of the Group's credit policy are set out in note 27(a).

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

19 Trade and other receivables and prepayments (continued)

(b) Impairment of trade receivables

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

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

	The Group	
	2010 RMB'000	2009 RMB'000
At 1 January	1,479	3,720
Reversal of impairment of trade receivables (note 5(c))	—	(1,035)
Impairment of trade receivables (note 5(c))	45	—
Uncollectible amounts written off	(925)	(1,206)
At 31 December	599	1,479

At 31 December 2010, the Group's trade receivables of RMB599,000 (2009: RMB1,512,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB599,000 (2009: RMB1,479,000) were recognised. The Group does not hold any collateral over these balances.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

19 Trade and other receivables and prepayments (continued)

(c) Trade receivables that are not impaired

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	21,116	17,398
Less than 3 months past due	2,797	4,001
More than 3 months but less than 1 year past due	29	1,322
	2,826	5,323
	23,942	22,721

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

20 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Deposits with banks	—	162	—	162
Cash at bank and in hand	<u>276,802</u>	<u>229,974</u>	<u>118,963</u>	<u>11,512</u>
Cash and cash equivalents in the statement of financial position	276,802	230,136	118,963	11,674
Deposits maturing beyond three months when placed	<u>—</u>	<u>(162)</u>		
Cash and cash equivalents in the consolidated cash flow statement	276,802	229,974		

As at 31 December 2010, the Group's cash and cash equivalents of RMB148,600,000 (2009: RMB212,568,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

20 Cash and cash equivalents (continued)

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

	Note	2010 RMB'000	2009 RMB'000
Loss before taxation		(151,033)	(395,706)
Adjustments for:			
Depreciation	5(c)	7,160	19,303
Amortisation of lease prepayments	5(c)	1,714	1,714
Amortisation of intangible assets	5(c)	9	87
Interest expense	5(a)	—	51
Interest income	5(a)	(114)	(135)
Equity-settled share-based payment expenses	5(b)	706	—
Equity-settled share-based payment expenses in respect of the Company's consultants	5(c)	12,333	—
Reversal of impairment of trade receivables	5(c)	—	(1,035)
Impairment of trade receivables	5(c)	45	—
Bad debt written off	5(c)	4,432	687
Impairment of non-current assets	12(c)	117,312	342,519
Provision for inventories		—	3,638
Loss on disposal of property, plant and equipment	5(c)	—	3,306
Foreign exchange loss		2,365	1,303
Operating loss before changes in working capital		(5,071)	(24,268)
Decrease in inventories		710	14,324
(Increase)/decrease in trade and other receivables and prepayments		(26,809)	21,746
(Increase)/decrease in amounts due from related parties		(799)	106
Increase/(decrease) in trade and other payables		918	(13,430)
Decrease in amounts due to related parties		(1,211)	(7,452)
Cash used in operations		(32,262)	(8,974)

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

21 Amounts due (to)/from related parties

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

22 Trade and other payables

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Trade payables	9,302	6,372	—	—
Receipts in advance from customers	575	1,031	—	—
Payable for construction costs and acquisition of property, plant and equipment	27,322	4,016	—	—
Other payables and accruals	25,284	37,517	2,264	1,813
	62,483	48,936	2,264	1,813

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

	The Group	
	2010 RMB'000	2009 RMB'000
Within 3 months of invoice date	6,287	3,530
3 months to 6 months after invoice date	638	569
6 months to 1 year after invoice date	562	741
Over 1 year of invoice date	1,815	1,532
	9,302	6,372

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

23 Employee retirement benefits

Defined contribution retirement schemes

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

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

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

24 Equity-settled share-based transactions

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the "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). The Scheme will expire on 23 September 2012.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

24 Equity-settled share-based transactions (continued)

(a) The terms and conditions of the grants that existed during the years are as follows:

	Number of options	Vesting conditions	Contractual life of options
Options granted to executive directors:			
— on 15 August 2008	3,400,000	Immediate	5 years
— on 31 May 2010	4,000,000	Immediate	5 years
Options granted to independent non-executive directors:			
— on 15 August 2008	800,000	Immediate	5 years
— on 1 December 2008	200,000	Immediate	5 years
— on 31 May 2010	600,000	Immediate	5 years
Options granted to employees:			
— on 15 August 2008	600,000	Immediate	5 years
— on 31 May 2010	1,800,000	Immediate	5 years
Options granted to third-party consultants:			
— on 15 August 2008	1,200,000	Immediate	5 years
— on 3 December 2010	<u>51,000,000</u>	Immediate	2 years
	<u>63,600,000</u>		

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

24 Equity-settled share-based transactions (continued)

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

	2010		2009	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	HK\$0.32	2,800	HK\$6.48	310
Granted during the year	HK\$0.63	57,400	—	—
Share subdivision #	—	—	HK\$0.32	5,890
Exercised during the year	HK\$0.33	(8,200)	HK\$0.33	(3,400)
Forfeited during the year	HK\$0.67	(200)	—	—
Outstanding at the end of the year	HK\$0.67	<u>51,800</u>	HK\$0.32	<u>2,800</u>
Exercisable at the end of the year	HK\$0.67	<u>51,800</u>	HK\$0.32	<u>2,800</u>

Upon the share subdivision effective on 9 November 2009 (see note 26(d)(iv)), the number of shares attached to each of the options granted were proportionally adjusted to reflect the effect of the share subdivision.

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$0.93 (2009: HK\$0.46).

The options outstanding at 31 December 2010 had an exercise price from HK\$0.261 to HK\$0.68 (2009: HK\$0.33 or HK\$0.1425) and a weighted average remaining contractual life of 2 years (2009: 4 years).

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

24 Equity-settled share-based transactions (continued)

(c) Fair value of share options and assumptions

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

	Options granted on 3 December 2010	Options granted on 31 May 2010
Fair value of share options and assumptions		
Fair value at measurement date	HK\$0.2831	HK\$0.1263
Share price	HK\$0.680	HK\$0.250
Exercise price	HK\$0.680	HK\$0.261
Expected volatility	90%	77%
Option life	2 years	5 years
Expected dividends	1.77%	2.80%
Risk-free interest rate	0.631%	1.614%

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

Share options were granted without condition and vested immediately.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

25 Income tax in the consolidated statement of financial position

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

	The Group	
	2010 RMB'000	2009 RMB'000
Provision for PRC Corporate Income Tax for the year	—	—
Balance of PRC income tax relating to prior years	<u>19,637</u>	<u>19,637</u>
Income tax payable	<u>19,637</u>	<u>19,637</u>

(b) Deferred tax assets recognised:

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

	Provisions RMB'000	Future benefit of tax losses RMB'000	Dividend withholding tax RMB'000	Total RMB'000
Deferred tax arising from:				
At 1 January 2009	4,644	1,602	(530)	5,716
Credited to profit or loss (note 6(a))	<u>83,034</u>	<u>9,906</u>	<u>530</u>	<u>93,470</u>
At 31 December 2009	<u>87,678</u>	<u>11,508</u>	<u>—</u>	<u>99,186</u>
At 1 January 2010	87,678	11,508	—	99,186
Credited/(charged) to profit or loss (note 6(a))	<u>14,535</u>	<u>(8,508)</u>	<u>—</u>	<u>6,027</u>
At 31 December 2010	<u>102,213</u>	<u>3,000</u>	<u>—</u>	<u>105,213</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

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

(b) Deferred tax assets recognised: (continued)

	The Group	
	2010	2009
	RMB'000	RMB'000
Deferred tax assets recognised on the statement of financial position	105,213	99,186
Deferred tax liabilities recognised on the statement of financial position	—	—
	<u>105,213</u>	<u>99,186</u>

The Group has recognised deferred tax assets as at 31 December 2010 in respect of cumulative tax losses of RMB12,896,000 (2009: RMB48,970,000) arising from the subsidiaries in the PRC as the directors are of the opinion that future taxable profits against which the losses can be utilised will be available. The tax losses of those subsidiaries will expire in five years.

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets as at 31 December 2010 in respect of cumulative tax losses of RMB77,142,000 (2009: RMB25,971,000) arising from the subsidiaries in Hong Kong, the PRC and Indonesia, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses of the subsidiary in Hong Kong do not expire under current tax legislation while those of the subsidiaries in the PRC and Indonesia will expire in five years.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

26 Capital, reserves and dividends

(a) Movements in components in equity

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

The Company

	Share capital (note (c)) RMB'000	Share premium (note (e)) RMB'000	Capital reserve (note (e)) RMB'000	Exchange reserve (note (e)) RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2009	74,242	271,980	637	(46,940)	(26,937)	272,982
Loss for the year	—	—	—	—	(26,163)	(26,163)
Other comprehensive income	—	—	—	(436)	—	(436)
Total comprehensive income for the year	—	—	—	(436)	(26,163)	(26,599)
Shares issued under placement, net of issuance costs	8,206	19,963	—	—	—	28,169
Shares issued under share option scheme	150	1,201	(362)	—	—	989
Dividends approved during the year	—	(3,784)	—	—	—	(3,784)
At 31 December 2009	<u>82,598</u>	<u>289,360</u>	<u>275</u>	<u>(47,376)</u>	<u>(53,100)</u>	<u>271,757</u>
At 1 January 2010	82,598	289,360	275	(47,376)	(53,100)	271,757
Loss for the year	—	—	—	—	(21,986)	(21,986)
Other comprehensive income	—	—	—	(13,097)	—	(13,097)
Total comprehensive income for the year	—	—	—	(13,097)	(21,986)	(35,083)
Equity-settled share-based transactions	—	—	13,039	—	—	13,039
Shares issued under placement, net of issuance costs	18,902	124,866	—	—	—	143,768
Shares issued under share option scheme	350	2,476	(914)	—	—	1,912
At 31 December 2010	<u>101,850</u>	<u>416,702</u>	<u>12,400</u>	<u>(60,473)</u>	<u>(75,086)</u>	<u>395,393</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

26 Capital, reserves and dividends (continued)

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK Nil cents per share (2009: HK6.0 cents per share)	—	3,784

(c) Authorised and issued share capital

	Number of shares '000	Nominal value of ordinary shares HK\$'000
Authorised:		
Ordinary shares of HK\$1.00 each at 1 January 2009	100,000	100,000
Increase in authorised capital	100,000	100,000
Share subdivision of authorised share capital of every share of HK\$1.00 each to 20 shares of HK\$0.05 each on 9 November 2009	<u>3,800,000</u>	<u>—</u>
Ordinary shares of HK\$0.05 each at 31 December 2009	<u>4,000,000</u>	<u>200,000</u>
Ordinary shares of HK\$0.05 each at 1 January 2010	4,000,000	200,000
Increase in authorised capital	<u>4,000,000</u>	<u>200,000</u>
Ordinary shares of HK\$0.05 each at 31 December 2010	<u>8,000,000</u>	<u>400,000</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

26 Capital, reserves and dividends (continued)

(c) Authorised and issued share capital (continued)

	Note	No. of shares	Nominal value of ordinary shares	
			HK\$'000	RMB'000
Issued and fully paid:				
1 January 2009		71,616,994	71,617	74,242
Share placing and subscription	(d)(i)	9,310,000	9,310	8,206
Share subdivision on 9 November 2009	(d)(ii)	1,537,612,886	—	—
Shares issued under share option scheme	(d)(iii)	3,400,000	170	150
At 31 December 2009		<u>1,621,939,880</u>	<u>81,097</u>	<u>82,598</u>
1 January 2010		1,621,939,880	81,097	82,598
Share placing and subscription on 29 January 2010	(d)(iv)	100,000,000	5,000	4,376
Share placing and subscription on 27 October 2010	(d)(v)	221,000,000	11,050	9,450
Share placing and subscription on 10 December 2010	(d)(vi)	119,000,000	5,950	5,076
Shares issued under share option scheme	(d)(vii)	8,200,000	410	350
At 31 December 2010		<u>2,070,139,880</u>	<u>103,507</u>	<u>101,850</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

26 Capital, reserves and dividends *(continued)*

(d) Issue of shares

- (i) On 7 September 2009, the Company completed the placement of 9,310,000 ordinary shares pursuant to the terms of an agency agreement signed between the Company and one agent. The placing price is HK\$3.48 per share.

Net proceeds from such issue amounting to HK\$31,958,000 (equivalent to RMB28,169,000) after offsetting issuance expenses of RMB454,000, of which RMB8,206,000 was credited to share capital and the balance of RMB19,963,000 was credited to the share premium account.

- (ii) On 6 November 2009, an Extraordinary General Meeting of the Company was held during which the shareholders approved the share subdivision, under which each of the existing issued and unissued shares of HK\$1.00 each in the share capital of the Company would be subdivided into twenty subdivided shares of HK\$0.05 each. The Share Subdivision became effective on 9 November 2009.

After the share subdivision, the Company has authorised capital of 4,000,000,000 ordinary shares at HK\$0.05 each.

- (iii) During the year ended 31 December 2009, options were exercised to subscribe for 170,000 ordinary shares further sub-divided to 3,400,000 ordinary shares in the Company at a consideration of RMB989,000 of which RMB150,000 was credited to share capital and the balance of RMB839,000 was credited to the share premium account in accordance with policy set out in note 1(p).

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

26 Capital, reserves and dividends *(continued)*

(d) Issue of shares *(continued)*

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

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

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

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

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

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

26 Capital, reserves and dividends *(continued)*

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

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law (2007 Revision) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of the business.

(ii) Exchange reserve

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

(iii) Merger reserve

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

(iv) Capital reserve

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

26 Capital, reserves and dividends *(continued)*

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

(v) Statutory reserves

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

(vi) Distributable reserves

The aggregate amount of distributable reserves of the Company at 31 December 2010 was RMB341,616,000 (2009: RMB236,260,000).

(f) Capital management

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

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

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

During 2010, the Group's strategy, which was unchanged from 2009, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders or issue new shares. The net debt-to-equity ratio as at 31 December 2010 and 2009 are 12.1% and 10.0% respectively.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

27 Financial risk management and fair values

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored as an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group normally grants a credit period of 60 days to domestic customers in the PRC and 30 to 90 days to overseas customers. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted.

At the reporting date, the Group has a certain concentration of credit risk as 20% (2009: 25%) and 67% (2009: 58%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors as at 31 December 2010 respectively. The Group does not hold any collateral over these balances.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(ii) Deposits with bank

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

As at 31 December 2010, the Group has a certain concentration of credit risk as 51.9% (2009: 90.1%) of total cash and cash equivalents were deposited at one of the four largest financial institutions in the PRC with high credit rating.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

27 Financial risk management and fair values (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the reporting date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Company can be required to pay:

The Group

	2010			2009		
	Within 1 year or on demand RMB'000	Total contractual undiscounted cashflow RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	Total contractual undiscounted cashflow RMB'000	Balance sheet carrying amount RMB'000
Trade and other payables	62,483	62,483	62,483	48,936	48,936	48,936
Amounts due to related parties	1,522	1,522	1,522	2,733	2,733	2,733
	64,005	64,005	64,005	51,669	51,669	51,669

The Company

	2010			2009		
	Within 1 year or on demand RMB'000	Total contractual undiscounted cashflow RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	Total contractual undiscounted cashflow RMB'000	Balance sheet carrying amount RMB'000
Other payables	2,264	2,264	2,264	1,813	1,813	1,813
Amounts due to related parties	2,735	2,735	2,735	6,970	6,970	6,970
	4,999	4,999	4,999	8,783	8,783	8,783

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

27 Financial risk management and fair values (continued)

(c) Interest rate risk

(i) Interest rate profile

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

The Group

	2010		2009	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Variable rate instruments:				
Cash and cash equivalents	0.19	<u>276,802</u>	0.05	<u>230,136</u>

The Company

	2010		2009	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Variable rate instruments:				
Cash and cash equivalents	0.00	<u>118,963</u>	0.05	<u>11,674</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

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

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss for the year and the Group's accumulated losses by approximately RMB2,378,000 (2009: decrease/increase the Group's loss for the year and increase/decrease the Group's retained profits by approximately RMB1,768,000). Other components of consolidated equity would not be affected by change in interest rates (2009: Nil).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after tax (and accumulated losses/retained profits) that would arise assuming that the change in interest rates had occurred at the reporting date and had been applied remeasure those financial instruments held by the Group which expose the Group to interest rate risk at the reporting date. The analysis is performed on the same basis for 2009.

(d) Currency risk

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

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

27 Financial risk management and fair values (continued)

(d) Currency risk (continued)

(i) Exposure to currency risk

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

	The Group (expressed in RMB'000)			
	2010		2009	
	Canadian Dollars '000	United States Dollars '000	Canadian Dollars '000	United States Dollars '000
Cash and cash equivalents	233	558	189	5,201
Trade and other receivables and prepayments	65	7,635	83	9,275
Trade and other payables	(94)	(332)	—	(381)
Overall net exposure	<u>204</u>	<u>7,861</u>	<u>272</u>	<u>14,095</u>

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

27 Financial risk management and fair values (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

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

	2010			2009		
	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in loss after taxation RMB'000	(Decrease)/ increase in accumulated losses RMB'000	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in loss after taxation RMB'000	Increase/ (decrease) in retained profits RMB'000
United States dollars	5%	(298)	(298)	5%	(530)	530
	(5)%	298	298	(5)%	530	(530)
Canadian dollars	5%	(10)	(10)	5%	(14)	14
	(5)%	10	10	(5)%	14	(14)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial assets/liabilities held by the Group which expose the Group to foreign currency risk at the reporting date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2009.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

27 Financial risk management and fair values (continued)

(e) Commodity price risk

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

(f) Fair values

As stated in note 21, the balances with related parties are interest-free and repayable on demand. Given these term it is not meaningful to disclose their fair values. All other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

28 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2010 not provided for in the financial statements are as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Contracted for	7,023	20,418
Authorised but not contracted for	—	32,623
	7,023	53,041

- (b) At 31 December 2010, the Group had a commitment of US\$561,000 (2009: US\$561,000) equivalent to RMB3,715,000 (2009: RMB3,847,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

28 Commitments (continued)

(c) Operating leases

At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company	
	2010 RMB'000	2009 RMB'000
Within 1 year	559	583
After 1 year but within 5 years	392	991
	<u>951</u>	<u>1,574</u>

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

29 Material related party transactions

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

(a) Recurring transactions

	Note	2010 RMB'000	2009 RMB'000
Water supply from related parties	(i)	<u>—</u>	<u>1,281</u>

Notes:

- (i) YXZL purchased water for manufacturing purpose from Yixing City Xushe Water Supply Plant ("the Water Plant"), a collectively-owned enterprise in Xushe Town of Yixing City. The Water Plant is related to the Group to the extent that Ms Bao Xi Mei (being the spouse of a director of the Group), was the legal representative of the Water Plant in 2009. Ms Bao Xi Mei ceased to be the legal representative of the Water Plant effective 1 January 2010.
- (ii) Pursuant to a trademark licensing agreement dated 12 July 2000 entered into between YXZL and a related company whereas the related company has agreed to grant exclusive rights to YXZL for the use of the "Long Jing" trademarks in specified areas at nil consideration.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

29 Material related party transactions (continued)

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

	Note	2010 RMB'000	2009 RMB'000
Amounts due from related parties			
— Yang Zhen	(i) and (iv)	—	64
— Director of the Company	(i)	863	—
		863	64
Amounts due to related parties:			
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (ii)	(1,138)	(1,138)
— Directors of the Company	(i)	(384)	(910)
— Yixing City Xushe Water Supply Plant	(i) and (iii)	—	(685)
		(1,522)	(2,733)

Notes:

- (i) The balances at 31 December 2009 and 2010 are unsecured, non-interest bearing and repayable on demand.
- (ii) The party is related to the extent that Mr Yang Xin Min, a major shareholder and director of the Company, who is also the sole owner of the related company.
- (iii) The party is related to the extent that Ms Bao Xi Mei (being the spouse of a director of the Group), is the legal representative of the Yixing City Xushe Water Supply Plant.
- (iv) The party is related to the extent that Mr Yang Xin Min, is the father of the related party.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

29 Material related party transactions (continued)

(c) Amount due from a director

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

Cash advance made by the Company:

Name of borrower	Mr Yang Xin Min
Position	Director
Term of the cash advance	
— duration and repayment terms	Repayable on demand
— cash advance amount	RMB863,000
— Interest rate	Nil
— security	None
Balance of the cash advance	
— at 1 January 2009, 31 December 2009 and 1 January 2010	Nil
— at 31 December 2010	RMB863,000
Maximum balance outstanding	
— during 2010	RMB863,000
— during 2009	Nil

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

(d) Key management personnel remuneration

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

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Short-term employee benefits	<u>4,168</u>	<u>3,543</u>

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

30 Accounting estimates and judgements

Key sources of estimation uncertainty

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in note 1. In addition to notes 24 and 27 which contain information about assumptions relating to fair value of share options granted and financial instruments respectively, the Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment of assets

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

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

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

(b) Write-down of inventories

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

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

30 Accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

(c) 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.

(d) Depreciation and amortisation

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

31 Non-adjusting events after the reporting period

(a) Acquisition of Muntari Holdings Limited

On 6 January 2011, the Company acquired the entire equity interest in Muntari Holdings Limited ("Muntari"). Muntari is an investment holding company and its principal assets are its 100% equity interest in Ningbo Lianyi Corporate Management Consultancy Co., Ltd ("Ningbo Lianyi"). Through certain service agreements and other contractual arrangements, Ningbo Lianyi is entitled to 100% economic benefit from Ningbo Bokun Petrochemical Storage Co., Ltd ("Ningbo Bokun"). Ningbo Bokun and Ningbo Lianyi are principally engaged in the provision of agency services on trading of petrochemicals and storage services of petrochemicals in the PRC (the "petroleum business"). The acquisition is expected to improve the prospect of the Group by diversification into the petroleum business.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

31 Non-adjusting events after the reporting period (continued)

(a) 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	Fair value adjustments	Recognised values on acquisition
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fixed assets	87,942	25,072	113,014
Intangible assets	—	174,924	174,924
Deferred tax assets	—	—	—
Trade and other receivables	329,251	—	329,250
Pledged deposits	300,000	—	300,000
Cash at bank and in hand	7,933	—	<u>7,933</u>
Identifiable assets acquired			----- 925,121
Trade and other payables	(610,176)	—	(619,037)
Bank loans	(49,000)	—	(49,000)
Current tax recoverable	(7,878)	—	(7,878)
Deferred tax liabilities	—	(6,268)	<u>(6,268)</u>
Identifiable liabilities assumed			----- (682,183)
Fair value of identifiable net assets			242,938
Satisfied by:			
Issue of consideration shares (note (i))			166,572
Issue of convertible bonds (note (ii))			227,756
Cash			<u>102,215</u>
Consideration			----- 496,543
Goodwill			<u>253,605</u>

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

31 Non-adjusting events after the reporting period (continued)

(a) Acquisition of Muntari Holdings Limited (continued)

Notes:

- (i) The fair value of the shares issued was based on the closing share price on 6 January 2011 of \$0.88 per share.
- (ii) Pursuant to the Share Transfer Agreement ("the Agreement") signed on 4 November 2010 between the Company, KW, Sinobright Petroleum Management Holding Co. Limited ("Sinobright") and Mr. Wang Jiawei, Sinobright guaranteed that the aggregate audited net profit after taxation and minority interests but before extraordinary items of Ningbo Bokun and Ningbo Lianyi 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 Ningbo Bokun and Ningbo Lianyi 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 estimated that the Contingent consideration will be within the range of 83% to 100% of the fair value of the convertible bonds as at acquisition date.

Goodwill represents the premium paid over the fair value of the identifiable net assets acquired by the Group in the acquisition. The directors of the Company are of the view that goodwill mainly arose from the superior geographical location of the petrochemicals storage facilities of Ningbo Bokun, its good and stable business relationship with the major petrochemicals suppliers in the PRC, and its experienced management team.

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

Given the acquisition was completed shortly after 31 December 2010, the directors of the Company consider that it is impracticable to disclose the post-acquisition financial information of the Muntari Group.

Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting year ended 31 December 2010

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Revised IAS 24, Related party disclosures	1 January 2011
IFRS 9, Financial instruments	1 January 2013
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
Amendments to IAS 12, Income taxes	1 January 2012

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an annual general meeting (the "Annual General Meeting") of the Company will be held at Suite 2611, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on Friday, 27 May 2011 at 3:00 p.m. for the following purposes:

1. To receive and adopt the audited financial statements of the Company and the reports of the directors and the auditors for the year ended 31 December 2010.
2.
 - (a) To re-elect Mr. Yang Xin Min as a director of the Company.
 - (b) To re-elect Mr. Li Fu Ping as a director of the Company.
 - (c) To re-elect Dr. Cheng Faat Ting Gary as a director of the Company.
 - (d) To authorise the board of directors to fix the directors' remuneration.
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions;

A. "THAT,

- (i) subject to sub-paragraph (iii) of this Resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with new shares in the capital of the Company, and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (ii) the approval in sub-paragraph (i) of this Resolution shall authorise the Directors during the Relevant Period (as defined below) to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period (as defined below);

Notice of Annual General Meeting

(iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in sub-paragraph (i) of this Resolution, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly, otherwise than pursuant to the following:

- (a) a Rights Issue (as defined below);
- (b) any shares issued pursuant to the exercise of rights of subscription or conversion under the terms of any warrants or any debentures, bond warrants, notes issued by the Company or any securities which are convertible into shares of the Company;
- (c) any share options granted or exercised pursuant to any option scheme or, any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; and
- (d) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company; and

(iv) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or
- (c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors; and

Notice of Annual General Meeting

“Rights Issue” means an offer of shares, open for a period fixed by the Directors to shareholders of the Company on the register on a fixed record date in proportion to their then holdings of such new shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

B. “THAT,

- (i) subject to sub-paragraph (ii) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to repurchase its shares in the capital of the Company, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in sub-paragraph (i) of this Resolution, shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (iii) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or
- (c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors.”

Notice of Annual General Meeting

- C.** “**THAT**, the general mandate granted to the Directors to issue and dispose of additional shares pursuant to Ordinary Resolution No. 4A set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No. 4B set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the said Resolution.”
5. (a) “**THAT** subject to and conditional upon the Listing Committee of the Stock Exchange granting approval of the share option scheme of the Company (the “Share Option Scheme”), the rules of the Share Option Scheme, the granting of any options thereunder and the listing of and permission to deal in the shares (the “Shares”) to be issued pursuant to the exercise of any such options, the Share Option Scheme be and is hereby approved and adopted and the directors of the Company be and is hereby authorised to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Share Option Scheme including but without limitation:
- (i) to administer the Share Option Scheme under which options will be granted to participants eligible under the Share Option Scheme to subscribe for Shares;
 - (ii) to modify and/or amend the Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Share Option Scheme relating to modification and/or amendment;
 - (iii) to issue and allot from time to time such number of Shares as may be required to be issued pursuant to the exercise of the options under the Share Option Scheme provided always that the total number of Shares subject to the Share Option Scheme, when aggregated with any Shares subject to any other share option schemes, shall not exceed ten percent (10%) of the relevant class of the issued share capital of the Company as at the date of passing this Resolution (excluding any Shares of the Company issued upon exercise of the options granted pursuant to the Share Option Scheme), but the Company may seek approval of its shareholders in general meeting for refreshing the ten percent (10%) limit under the Share Option Scheme and the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed thirty percent (30%) of the relevant class of the issued share capital of the Company from time to time;
 - (iv) to make application at the appropriate time or times to the Stock Exchange and any other stock exchanges upon which the issued Shares of the Company may for the time being be listed, for listing of and permission to deal in any Shares which may hereafter from time to time be issued and allotted pursuant to the exercise of the options under the Share Option Scheme; and

Notice of Annual General Meeting

- (v) to consent, if it so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the Share Option Scheme.
 - (b) the existing share option scheme of the Company which was adopted by a written resolution of the shareholders on 24 September 2002 and as amended on 27 June 2008 be and is hereby terminated with immediate effect.”
6. To deal with other ordinary businesses of the Company.

By Order of the Board

Li Mei Kuen

Company Secretary

Hong Kong, 26 April 2011

Principal Place of Business in Hong Kong:

Suite 2611, Shell Tower

Times Square

1 Matheson Street

Causeway Bay

Hong Kong

Notes:

1. The register of members of the Company will be closed from 25 May 2011 (Wednesday) to 27 May 2011 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with either (i) the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or (ii) the Company's branch share registrar in Canada, Computershare Investor Services Inc., 100 University Ave., 9th Floor, Toronto, Ontario, M5J 2Y1, for registration not later than 4:30 p.m. on 24 May 2011 (Tuesday).
2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
3. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited with either (i) the Company's branch share registrar in Hong Kong or (ii) the Company's branch share registrar in Canada not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. An explanatory statement containing further information on the above Resolution 4B is set out in Appendix I to the Company's circular to shareholders dated 26 April 2011.