



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

*(Incorporated in the Cayman Islands with limited liability)*

(HKEX - Stock Code: 0395)

**2010**  
Interim Report

\* For identification purposes only

## Corporate Information

### Executive Directors

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

### Independent Non-executive Directors

Mr. 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)

### Audit Committee

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

### Remuneration Committee

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

### Nomination Committee

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

### Auditors

KPMG LLP

### Principal Bankers

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

### Legal Advisers

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

### Qualified Accountant and Company Secretary

Ms. Li Mei Kuen

### Registered Office

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### Head Office and Principal Place of Business

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Xushe Town  
Yixing City  
Jiangsu Province  
PRC

**Place of Business and Correspondence**

**Address in Hong Kong**

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Email: [investors@chinazirconium.com.hk](mailto:investors@chinazirconium.com.hk)

**Principal Share 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  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

**Stock Name**

Sino Dragon

**Stock Code**

HKEX: 0395

The Board of Directors (the “Board”) of Sino Dragon New Energy Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 together with the comparative figures. The condensed consolidated interim financial statements (the “Interim Financial Statements”) have not been audited, but have been reviewed by the Company’s Audit Committee.

## Condensed Consolidated Statement of Comprehensive Income/(Loss)

For the six months ended 30 June 2010

		Unaudited Six months ended 30 June	
		2010	2009
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	<b>74,514</b>	56,146
Cost of sales		<b>(66,540)</b>	(62,355)
Gross profit/(loss)		<b>7,974</b>	(6,209)
Other income		<b>419</b>	567
Distribution costs		<b>(2,536)</b>	(1,697)
Administrative expenses		<b>(9,827)</b>	(8,410)
Other operating expenses		<b>(252)</b>	(323)
Loss from operations		<b>(4,222)</b>	(16,072)
Net finance costs	3(a)	<b>(82)</b>	(24)
Loss before taxation	3	<b>(4,304)</b>	(16,096)
Income tax	4	<b>—</b>	—
Loss for the period		<b>(4,304)</b>	(16,096)

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

For the six months ended 30 June 2010

	Notes	Unaudited	
		Six months ended 30 June	
		2010	2009
		RMB'000	RMB'000
<b>Other comprehensive</b>			
<b>(loss)/income for the period:</b>			
Exchange differences			
on translation of:			
— financial statements of			
operations outside the			
People's Republic of China		<u>(3,626)</u>	<u>1,148</u>
<b>Total comprehensive loss</b>			
<b>for the period</b>		<u><b>(7,930)</b></u>	<u><b>(14,948)</b></u>
Attributable to:			
Equity holders of the Company		<u>(4,316)</u>	<u>(16,005)</u>
Minority interest		<u>12</u>	<u>(91)</u>
		<u><b>(4,304)</b></u>	<u><b>(16,096)</b></u>
<b>Dividends</b>	5	<u>—</u>	<u>—</u>
<b>Loss per share</b>			<i>(restated)</i>
Basic (RMB cents)	6	<u><b>(0.25)</b></u>	<u>(1.12)</u>
Diluted (RMB cents)	6	<u><b>(0.25)</b></u>	<u>(1.12)</u>

**Condensed Consolidated Statement of Financial Position**

At 30 June 2010

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2010</b>	2009
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>117,100</b>	118,944
Construction in progress		<b>4,053</b>	1,779
Lease prepayments		<b>63,653</b>	64,510
Intangible assets		<b>14</b>	28
Long-term prepayments		<b>31,860</b>	8,129
Deferred tax assets		<b>99,186</b>	99,186
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>315,866</b>	292,576
<b>Current assets</b>			
Inventories		<b>30,867</b>	30,301
Trade and other receivables and prepayments	8	<b>42,987</b>	31,328
Amount due from related parties	14(b)	<b>—</b>	64
Lease prepayments		<b>1,597</b>	1,597
Cash and cash equivalents	9	<b>226,108</b>	230,136
		<hr/>	<hr/>
<b>Total current assets</b>		<b>301,559</b>	293,426
		<hr/>	<hr/>
<b>Total assets</b>		<b>617,425</b>	586,002
		<hr/>	<hr/>

**Condensed Consolidated Statement of Financial Position**

At 30 June 2010

		Unaudited 30 June 2010 <i>RMB'000</i>	Audited 31 December 2009 <i>RMB'000</i>
	<i>Notes</i>		
<b>Current liabilities</b>			
Trade and other payables	10	<b>56,115</b>	48,936
Amounts due to related parties	14(b)	<b>3,453</b>	2,733
Current taxation		<b>16,282</b>	19,637
<b>Total current liabilities</b>		<b>75,850</b>	71,306
<b>Net current assets</b>		<b>225,709</b>	222,120
<b>NET ASSETS</b>		<b>541,575</b>	514,696
<b>Capital and reserves</b>			
Share capital	12	<b>86,991</b>	82,598
Retained profits		<b>393,047</b>	366,269
Reserves		<b>61,254</b>	65,570
<b>Total equity attributable to equity holders of the Company</b>		<b>541,292</b>	514,437
<b>Minority interest</b>		<b>283</b>	259
<b>TOTAL EQUITY</b>		<b>541,575</b>	514,696

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2010

	Unaudited	
	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (used in)/generated from operating activities	<b>(6,756)</b>	2,674
Net cash used in investing activities	<b>(31,115)</b>	(4,088)
Net cash generated from/(used in) financing activities	<b>34,127</b>	(9,563)
Effects of exchange rate changes	<u><b>(3,622)</b></u>	<u>1,157</u>
Net decrease in cash and cash equivalents	<b>(7,366)</b>	(9,820)
Cash and cash equivalents at 1 January	<u><b>229,974</b></u>	<u>278,403</u>
Cash and cash equivalents at 30 June	<u><b>222,608</b></u>	<u>268,583</u>



## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Unaudited									
	Six months ended 30 June 2010									
	Share Capital	Merger Reserve	Share Premium	Statutory Reserves	Capital Reserve	Exchange Reserve	Retained Profits	Total	Minority Interest	Total Equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	82,598	(11,085)	289,360	92,749	275	(5,030)	65,570	514,437	259	514,696
Shares issued under placement, net of issuance costs	4,376	—	29,644	—	—	—	—	34,020	—	34,020
Shares issued under share option scheme	18	—	89	—	(24)	—	—	83	—	83
Equity-settled share-based payment	—	—	—	—	706	—	—	706	—	706
Expiry of share options	—	—	16	—	(16)	—	—	—	—	—
Total comprehensive income/(loss) for the period	—	—	—	—	—	(3,638)	(4,316)	(7,954)	24	(7,930)
At 30 June 2010	<u>86,992</u>	<u>(11,085)</u>	<u>319,109</u>	<u>92,749</u>	<u>941</u>	<u>(8,668)</u>	<u>61,254</u>	<u>541,292</u>	<u>283</u>	<u>541,575</u>

	Unaudited									
	Six months ended 30 June 2009									
	Share Capital	Merger Reserve	Share Premium	Statutory Reserves	Capital Reserve	Exchange Reserve	Retained Profits	Total	Minority Interest	Total Equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	74,242	(11,085)	271,980	92,749	637	(5,899)	362,000	784,624	3,859	788,483
Contribution by minority interest	—	—	—	—	—	—	—	—	1,094	1,094
2008 final dividend	—	—	(3,784)	—	—	—	—	(3,784)	—	(3,784)
Total comprehensive income/(loss) for the period	—	—	—	—	—	448	(16,005)	(15,557)	609	(14,948)
At 30 June 2009	<u>74,242</u>	<u>(11,085)</u>	<u>268,196</u>	<u>92,749</u>	<u>637</u>	<u>(5,451)</u>	<u>345,995</u>	<u>765,283</u>	<u>5,562</u>	<u>770,845</u>

## Notes to the Unaudited Interim Financial Statements

(Expressed in Renminbi unless otherwise stated)

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

### 1. Basis of Preparation

Sino Dragon New Energy Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 18 July 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. This interim condensed consolidated financial statements comprises the Company and its subsidiaries (together referred to as the “Group”) and has been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim financial reporting* promulgated by the International Accounting Standards Board.

The interim financial statements do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2009. The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements.

The Group has adopted the standards, amendments and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2010. The adoption of such standards, amendments and interpretations did not have material effect on these results.

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

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

## **2. Turnover and Segment Information**

Turnover represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes. The Group manages its businesses by the operating subsidiaries in the People’s Republic of China which are engaged in the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials and rechargeable batteries. 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 P.T. Asia Prima Resources (“APR”). No operating segments have been aggregated to form the above reporting segments.

## (a) Segment results, assets and liabilities

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

	YXZL		YBBL		BHDC		APR		Total	
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from										
external customers	67,386	52,189	7,128	3,957	—	—	—	—	74,514	56,146
Inter-segment revenue	1,667	615	—	—	—	—	—	2,379	1,667	2,994
Reportable segment										
revenue	<u>69,053</u>	<u>52,804</u>	<u>7,128</u>	<u>3,957</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,379</u>	<u>76,181</u>	<u>59,140</u>
Reportable segment										
profit/(loss)										
before taxation	<u>(486)</u>	<u>(13,216)</u>	<u>1,146</u>	<u>245</u>	<u>(462)</u>	<u>(848)</u>	<u>25</u>	<u>(187)</u>	<u>223</u>	<u>(14,006)</u>
Net finance costs	17	274	(2)	5	—	—	67	(289)	82	(10)
Depreciation and										
amortisation	<u>4,178</u>	<u>9,571</u>	<u>156</u>	<u>228</u>	<u>179</u>	<u>179</u>	<u>—</u>	<u>157</u>	<u>4,513</u>	<u>10,135</u>

	YXZL		YBBL		BHDC		APR		Total	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	<u>498,877</u>	<u>491,415</u>	<u>20,941</u>	<u>18,640</u>	<u>61,691</u>	<u>19,279</u>	<u>626</u>	<u>618</u>	<u>582,135</u>	<u>529,952</u>
Reportable segment liabilities	<u>(157,954)</u>	<u>(150,038)</u>	<u>(4,516)</u>	<u>(3,361)</u>	<u>(72,120)</u>	<u>(45,555)</u>	<u>(49)</u>	<u>(89)</u>	<u>(234,639)</u>	<u>(199,043)</u>

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

	Unaudited	
	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
<b>Revenue</b>		
Reportable segment revenue	<b>76,181</b>	59,140
Elimination of inter-segment revenue	<u>(1,667)</u>	<u>(2,994)</u>
Consolidated turnover	<u><b>74,514</b></u>	<u>56,146</u>
<b>Profit/(Loss)</b>		
Reportable segment profit/(loss)	<b>223</b>	(14,006)
Unallocated head office and corporate expenses	<u>(4,527)</u>	<u>(2,090)</u>
Consolidated loss before taxation	<u><b>(4,304)</b></u>	<u>(16,096)</u>

## Sino Dragon New Energy Holdings Limited

	<b>30 June 2010 (unaudited) RMB'000</b>	31 December 2009 (audited) RMB'000
<b>Assets</b>		
Reportable segment assets	<b>582,135</b>	529,952
Elimination of inter-segment receivables	<b>(82,619)</b>	(57,292)
Deferred tax assets	<b>99,186</b>	99,186
Unallocated head office and corporate assets	<b>18,723</b>	14,156
Consolidated total assets	<b><u>617,425</u></b>	<b><u>586,002</u></b>
<b>Liabilities</b>		
Reportable segment liabilities	<b>234,639</b>	199,043
Elimination of inter-segment payables	<b>(175,211)</b>	(145,381)
Unallocated head office and corporate liabilities	<b>16,422</b>	17,644
Consolidated total liabilities	<b><u>75,850</u></b>	<b><u>71,306</u></b>

**3. Loss before Taxation**

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
<hr/>		
(a) Net finance costs:		
Interest income	<b>(36)</b>	(76)
Interest on bank borrowings wholly repayable within five years	<b>—</b>	51
Net exchange loss	<b>118</b>	49
	<hr/>	<hr/>
	<b>82</b>	24
	<hr/> <hr/>	<hr/> <hr/>
(b) Staff costs:		
Salaries, wages and other benefits	<b>6,339</b>	9,581
Contributions to defined contribution retirement scheme	<b>286</b>	429
	<hr/>	<hr/>
	<b>6,625</b>	10,010
	<hr/> <hr/>	<hr/> <hr/>

	Unaudited	
	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
<hr/>		
(c) Other items:		
Amortisation		
— lease prepayments	857	857
— intangible assets	14	72
Depreciation	3,648	9,211
Research and development costs	—	—
Operating lease charges in respect of the office premises in Hong Kong	347	323
Cost of inventories	66,540	64,733
<hr/>		

#### 4. Income Tax

	Unaudited	
	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
<hr/>		
<b>Current tax — the People's Republic of China (the "PRC") income tax</b>		
Provision for the period	<u>—</u>	<u>—</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>—</u>	<u>—</u>
<hr/>		



- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision for Hong Kong Profits Tax has been made as the Group did not earn any profits assessable to Hong Kong Profits Tax for the six months ended 30 June 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 six months ended 30 June 2009 and 2010.

No CIT provision has been made for Yixing Xinxing Zirconium Company Limited as it incurred tax losses for both six months ended 30 June 2009 and 2010.

As a production-oriented foreign investment enterprise (“FIE”), Yixing Better Batteries Company Limited (“YBBL”) had kick off its Tax Holiday (“Tax Holiday”) under the old PRC Corporate Income Tax regime in 2008. As such, YBBL was exempted from CIT in 2008 and 2009. The unexpired Tax Holiday enjoyed by FIE established before 16 March 2007 is allowed to continue after implementation of PRC Tax Law until expiry of the Tax Holiday. As such, the applicable CIT rate of YBBL is 12.5% in years 2010 to 2012 and 25% thereafter.

No CIT provision has been made for YBBL and Binhai Dragon Crystal Chemicals Company Limited as they did not have any assessable profits for both six months ended 30 June 2009 and 2010.

- (iv) Pursuant to the Income Tax Laws in Indonesia, P.T. Asia Prima Resources (“APR”) is subject to corporate income tax at progressive rates ranging from 10%-30%, based on the level of assessable profit earned by the enterprise. No corporate income tax provision is made for APR as it has no assessable profit for both six months ended 30 June 2009 and 2010.

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

## 5. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (Six months ended 30 June 2009: Nil).

## 6. Loss per Share

### (a) Basic loss per share

The calculation of basic loss per share for the six months ended 30 June 2010 is based on the loss attributable to equity holders of the Company of RMB4,316,000 (Six months ended 30 June 2009: RMB16,005,000) and the weighted average number of shares in issue during the period of 1,706,676,897 (Six months ended 30 June 2009 (*restated*): 1,432,339,880).

The weighted average number of ordinary shares in the six months ended 30 June 2009 for the purposes of calculating the basic and diluted loss per share have been retrospectively adjusted for the subdivision of the share on a 1 to 20 basis which took place on 9 November 2009.

(b) Diluted loss per share

The calculation of diluted loss per share for the six months ended 30 June 2010 is based on the loss attributable to the equity holders of the Company of RMB4,316,000 (Six months ended 30 June 2009: RMB16,005,000) and the weighted average number of shares in issue during the period after adjusting for the effect of potential dilutive shares, assuming they were exercised.

Weighted average number of shares (diluted):

	2010	2009 <i>(restated)</i>
Weighted average number of shares	<b>1,706,676,897</b>	1,432,339,880
Effect of deemed issue of shares under the Company's Share Options Scheme at consideration of HK\$0.33 (2009 <i>(restated)</i> ): HK\$0.14 per share	<u>279,280</u>	<u>42,802</u>
Weighted average number of shares (diluted)	<u><b>1,706,956,177</b></u>	<u>1,432,382,682</u>

## 7. Property, Plant and Equipment

During the six months ended 30 June 2010, the Group acquired items of plant and machinery with a cost of RMB1,808,000 (six months ended 30 June 2009: RMB1,179,000). Total net book value of the machinery and equipment being disposed of by the Group during the six months ended 30 June 2010 was nil (Six months ended 30 June 2009: RMB717,000).

At 30 June 2010, the Group was in the process of obtaining the relevant property ownership certificates of certain buildings in the PRC and Indonesia from the relevant government authorities, the carrying value (before impairment provision) of which amounted to approximately RMB65,875,000 (31 December 2009: RMB66,260,000).

## 8. Trade and Other Receivables and Prepayments

	<b>30 June 2009 (unaudited) RMB'000</b>	31 December 2009 (audited) RMB'000
Trade receivables	<b>28,372</b>	24,233
Less: Allowance for doubtful debts	<b>(721)</b>	(1,479)
	<b>27,651</b>	22,754
Advance payments to suppliers	<b>7,191</b>	3,899
Deposits, prepayments and other receivables	<b>8,145</b>	4,675
	<b>42,987</b>	31,328

(a) Ageing analysis

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

	<b>30 June 2010 (unaudited) RMB'000</b>	31 December 2009 (audited) RMB'000
Current	<u>24,495</u>	<u>17,398</u>
Less than 3 months past due	<b>3,077</b>	4,001
More than 3 months but less than 1 year past due	<b>79</b>	1,324
Over 1 year past due	<u>—</u>	<u>31</u>
Amounts past due	<u>3,156</u>	<u>5,356</u>
	<b><u>27,651</u></b>	<b><u>22,754</u></b>

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

(b) Impairment of trade receivables

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

At 30 June 2010, the Group's trade receivables of RMB754,000 (31 December 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 RMB721,000 (31 December 2009: RMB1,479,000) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

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

	<b>30 June 2010 (unaudited) RMB'000</b>	31 December 2009 (audited) RMB'000
Neither past due nor impaired	<u>24,495</u>	<u>17,398</u>
Less than 3 months past due	<b>3,077</b>	4,001
More than 3 months but less than 1 year past due	<b>46</b>	1,322
Over 1 year past due	<u>—</u>	<u>—</u>
	<u><b>3,123</b></u>	<u>5,323</u>
	<u><b>27,618</b></u>	<u><b>22,721</b></u>

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

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

9. Cash and Cash Equivalents

	<b>30 June 2010 (unaudited) RMB'000</b>	31 December 2009 (audited) RMB'000
Deposits with banks	<b>3,500</b>	162
Cash at bank and in hand	<b><u>222,608</u></b>	<u>229,974</u>
Cash and cash equivalents in the consolidated statement of financial position	<b>226,108</b>	230,136
Deposits maturing beyond three months when placed	<b><u>(3,500)</u></b>	<u>(162)</u>
Cash and cash equivalents in the consolidated cash flow statement	<b><u><u>222,608</u></u></b>	<u><u>229,974</u></u>



10. Trade and Other Payables

	<b>30 June 2010 (unaudited) RMB'000</b>	31 December 2009 (audited) RMB'000
Trade payables	<b>9,913</b>	6,372
Receipts in advance from customers	<b>1,252</b>	1,031
Payable for construction costs and acquisition of property, plant and equipment	<b>14,708</b>	4,016
Other payables and accruals	<b>30,242</b>	37,517
	<b><u>56,115</u></b>	<b><u>48,936</u></b>

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:

	<b>30 June 2010 (unaudited) RMB'000</b>	31 December 2009 (audited) RMB'000
Within 3 months	<b>5,484</b>	3,530
3 months to 6 months	<b>1,433</b>	569
6 months to 1 year	<b>1,120</b>	741
Over 1 year	<b>1,876</b>	1,532
	<b><u>9,913</u></b>	<b><u>6,372</u></b>

## 11. 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 may, at its discretion, grant share options (“Options”) to the eligible persons as defined in the Scheme. The Scheme will expire on 23 September 2012.

During the six months ended 30 June 2010, 6,400,000 Options (2009: Nil) were granted under the Scheme.

The terms and conditions of the unexpired and unexercised Options at 30 June 2010 are as follows:

	Date of grant	Exercise period	Number of Options				
			At 1 January 2010	Granted during the period	Exercised/Expired during the period	At 30 June 2010	Exercise Price per share
<b>Executive Directors</b>							
Yang Xin Min	15/8/2008	15/8/2008 - 15/8/2013	1,600,000	—	—	1,600,000	0.330
	31/5/2010	31/5/2010 - 30/5/2015	—	1,600,000	—	1,600,000	0.261
Huang Yue Qin	31/5/2010	31/5/2010 - 30/5/2015	—	600,000	—	600,000	0.261
Zhou Quan	31/5/2010	31/5/2010 - 30/5/2015	—	600,000	—	600,000	0.261
Li Fu Ping	31/5/2010	31/5/2010 - 30/5/2015	—	600,000	—	600,000	0.261
Fang Guo Hong	31/5/2010	31/5/2010 - 30/5/2015	—	600,000	—	600,000	0.261

	Date of grant	Exercise period	Number of Options				Exercise Price per share HK\$
			At 1 January 2010	Granted during the period	Exercised/ Expired during the period	At 30 June 2010	
<b>Independent Non-Executive Directors</b>							
Cheng Faat Ting Gary	31/5/2010	31/5/2010 - 30/5/2015	—	200,000	—	200,000	0.261
Carl F. Steiss (Resigned)	15/8/2008	15/8/2008 - 31/3/2010	200,000	—	200,000	—	—
Shi You Chun (Resigned)	15/8/2008	15/8/2008 - 31/12/2009	200,000	—	200,000	—	—
Victor Tong (Resigned)	1/12/2008	1/12/2008 - 28/4/2010	200,000	—	200,000	—	—
Ji Chang Ming	31/5/2010	31/5/2010 - 30/5/2015	—	200,000	—	200,000	0.261
Poon Lai Yin Michael	31/5/2010	31/5/2010 - 30/5/2015	—	200,000	—	200,000	0.261
<b>Subtotal</b>			<b>2,200,000</b>	<b>4,600,000</b>	<b>600,000</b>	<b>6,200,000</b>	
<b>Contracted employees</b>	31/5/2010	31/5/2010 - 30/5/2015	—	1,800,000	—	1,800,000	0.261
<b>Third-party consultant</b>	15/8/2008	15/8/2008 - 15/8/2013	600,000	—	—	600,000	0.330
<b>Total</b>			<b>2,800,000</b>	<b>6,400,000</b>	<b>600,000</b>	<b>8,600,000</b>	

## 12. Share Capital

The Company has authorised capital of 4,000,000,000 ordinary shares at HK\$0.05 each. As at 30 June 2010, 1,722,339,880 shares (31 December 2009 *(restated)*): 1,621,939,880 shares) were issued and fully paid.

## 13. Commitments

### (a) Capital Commitments

	<b>30 June 2010 (unaudited) RMB'000</b>	31 December 2009 (audited) RMB'000
Contracted for	<b>18,688</b>	20,418
Authorised but not contracted for	<b>32,623</b>	32,623
	<b><u>51,311</u></b>	<u>53,041</u>

- (b) At 30 June 2010, the Group had a commitment of US\$561,000 (31 December 2009: US\$561,000) equivalent to RMB3,798,000 (31 December 2009: RMB3,847,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

## 14. Material Related Party Transactions

## (a) Recurring transactions

	Notes	Unaudited	
		2010	2009
		RMB'000	RMB'000
Water supply from a related party	(i)	—	530

## Notes:

- (i) During the six months ended 30 June 2009, 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 Company to the extent that Ms. Bao Xi Mei, being the spouse of a director of the Company, is the legal representative of the Water Plant. Ms. Bao Xi Mei ceased to be the legal representative of the Water Plant from 1 January 2010. Therefore, the Water Plant is not considered as a related party of the Group for the six months ended 30 June 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.

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

		30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
	Notes		
Amounts due from related parties:			
— Yang Zhen	(i) and (iv)	<u>—</u>	<u>64</u>
Amounts due to related parties:			
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (ii)	<u>(1,138)</u>	<u>(1,138)</u>
— Directors of the Company	(i)	<u>(2,315)</u>	<u>(910)</u>
— Yixing City Xushe Water Supply Plant	(i) and (iii)	<u>—</u>	<u>(685)</u>
		<u><b>(3,453)</b></u>	<u><b>(2,733)</b></u>

**Notes:**

- (i) *The balances at 30 June 2010 and 31 December 2009 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, 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 Company, is the legal representative of Yixing City Xushe Water Supply Plant (the "Water Plant"). Ms. Bao Xi Mei ceased to be the legal representative of the Water Plant from 1 January 2010. Therefore, the Water Plant is not considered as a related party of the Group for the six months ended 30 June 2010.*
- (iv) *The party is related to the extent that Mr. Yang Xin Min is the father of the related party.*

(c) **Key management personnel remuneration**

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Short-term employee benefits	<u><b>1,745</b></u>	<u><b>1,594</b></u>

**15. Approval of the Unaudited Interim Financial Statements**

The unaudited interim financial statements was approved and authorised for issue by the Board on 24 August 2010.

## Management Discussion and Analysis

### Caution regarding forward-looking statements

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

### Review of Results and Operations

The economic conditions in the Group's major overseas markets had improved in the current period. The Group's consolidated turnover for the six months ended 30 June 2010 has increased by 32.7% from RMB56,146,000 for the same period in prior year to RMB74,514,000. Such increase was mainly contributed by the increase in sales of zirconium chemicals and new energy materials by RMB16,249,000. Sales of rechargeable batteries has also increased by 80% to RMB7,128,000. The Group reported a gross profit of RMB7,974,000 for the current period, as compared to a gross loss of RMB6,209,000 for the same period in prior year. The improved gross profit was mainly resulted from the reduction in the depreciation expenses that were included in the product costs as manufacturing overheads.

Corresponding to the increase in turnover, the distribution costs and administrative expenses have both increased in the current period. Net finance costs remained at a relatively low level at RMB82,000 as the Group continued to maintain a zero debt position throughout the six months period ended 30 June 2010.



During the six months ended 30 June 2010, there was no change in the income tax rate applicable to the Company's subsidiaries in the PRC and Indonesia. Since all of the Company's subsidiaries were either incurring tax losses or not generating taxable profit during the six months ended 30 June 2010, no tax provision has been made in this period.

The Company continued to maintain a strong financial position in the current period. The Company has no long-term or short-term debt as of 30 June 2010. The Company maintained a healthy current ratio at 4:1, which is comparable to the ratio as of 31 December 2009. The minority interest reported in the balance sheet for the current period represented the interest of the minority shareholder of the Company's joint venture in Indonesia (the "Indonesian Joint Venture") after taking into account its share of the results of the Indonesian Joint Venture for the six months ended 30 June 2010. The operation of the Indonesian Joint Venture remains suspended during the current period, pending for further instructions from the relevant local government authorities. However, up to the date of this report, the Company is not aware of any indication of potential litigation against the Company in respect of the Indonesian Joint Venture.

During the current period, the Company has completed detail due diligence works 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). Based on the findings of the due diligence works, the Company's directors are 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. The Company will continue to proactively seeking for investment and acquisition opportunities.

## Prospects

The management is pleased to see the improvement in the Company's sales and results during the first half year of 2010, and is expected to see further improvement in the second half year of 2010. In anticipation of increase in sales orders, the Company has resumed the machinery installation works at the new zirconium chemicals production plant in Binhai (the "Binhai Plant"). The Company's plan is to commence production at the Binhai Plant in the fourth quarter of 2010.

On the supply side, the price and quantities of zircon supply were relatively stable, with slightly upward trend, in the first half year of 2010. As the current market of zircon sand is stable, the Company will continue sourcing zircon sand from external suppliers as this is considered to be more economical than producing internally.

For the rechargeable batteries business, the Company will continue to allocate resources in expanding the market for high temperature batteries. The management is optimistic in the future prospect of high temperature batteries and is anticipating considerable growth in the full year's sales of the batteries segment in 2010.

## Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

## Substantial Shareholder's and Directors' Interests in Securities

### Substantial Shareholder's Interests in Securities

As at 30 June 2010, the register of shareholders maintained pursuant to the Securities and Futures Ordinance (the "SFO") shows that the following shareholders with interests representing 5% or more of the Company's issued share capital:

<b>Name of Shareholders</b>	<b>Number of Shares</b>	<b>Percentage of total Share Capital</b>
Yang Xin Min	591,573,880	34.35%
CCB International (Holdings) Limited	186,000,000	10.80%

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

## Directors' Interests in Securities

As at 30 June 2010, the interests of the directors and chief executive of the Company in the securities of the Company and its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) pursuant to Divisions 7 and 8, stipulated in Section 341 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of Interests	Number of shares and approximate percentage of shares interested
Yang Xin Min	Personal	591,573,880 (34.35%)
Huang Yue Qin	Personal	600,000 (0.03%)
Zhou Quan	Personal	600,000 (0.03%)
Li Fu Ping	Personal	600,000 (0.03%)
Fang Guo Hong	Personal	4,400,000 (0.26%)
Cheng Faat Ting Gary	Personal	200,000 (0.01%)

## 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 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.

During the period ended 30 June 2010, 6,400,000 Options (2009: Nil) have been granted under the Scheme. Details of the Options outstanding as at 30 June 2010 were set out in note 11 to the Interim Financial Statements.

### **Liquidity and Financial Resources**

As of 30 June 2010, the Group's cash and cash equivalents totalled RMB226,108,000 compared to RMB230,136,000 as of 31 December 2009. The decreased balance was mainly used in operating activities and in making long-term prepayments for acquiring non-current assets in the current period.

At 30 June 2010, the Group did not have any banking facilities or trade financing facilities (31 December 2009: Nil).

The Group had no long-term liabilities as at 30 June 2010 and 31 December 2009.

### **Contingent Liabilities**

At 30 June 2010, the Group had no material contingent liabilities.

### **Employees**

During the period ended 30 June 2010, the Group had an average of 380 employees (same period of 2009: 715 employees). In the first half year of 2010, the aggregate employee remuneration (including directors' fees) was approximately RMB6,625,000 (same period of 2009: RMB10,010,000). The decrease in average number of employees and staff costs were mainly resulted from the scale-down of production in the current period as compared to the same period in previous year. The Group offers competitive salary packages to its employees who are also eligible for incentives based on their individual performance supplementing the Group's overall remuneration and bonus systems.

## **Purchase, Sale or Redemption of Listed Securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2010.

## **Pre-emptive Rights**

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

## **Material Litigation**

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

## **Corporate Governance**

### **Compliance with the Code on Corporate Governance Practices**

During the six months period ended 30 June 2010, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except in respect of a code provision providing for the roles of Chairman and Chief Executive Officer to be performed by different individuals. The deviation is deemed appropriate as the Company believes that the combination of the roles of Chairman and Chief Executive Officer promotes the efficient formulation and the implementation of the Company's strategies enabling the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

### **Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”)**

The Company has adopted a code of conduct regarding directors’ securities transactions in terms as stringent as those set out in the Model Code. All Directors, following specific enquiries made by the Company, confirmed that they have complied with the required standard of dealings as set out therein throughout the six months period ended 30 June 2010.

### **Audit Committee**

The Company set up an Audit Committee on 24 September 2002 with its written terms of reference being in compliance with the Rules set out in “A Guide for the Formation of An Audit Committee” issued by Hong Kong Institute of Certified Public Accountants. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee along with the management have reviewed the accounting principles, standards and methods adopted by the Group, and has reviewed the unaudited Interim Financial Statements for the six months ended 30 June 2010.

By order of the Board

**Yang Xin Min**

*Chairman*

Hong Kong, 24 August 2010