



## Corporate Information

### Executive Directors

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

### Non-executive Director

Mr. Wang Jia Wei  
(appointed on 2 June 2011)

### Independent Non-executive Directors

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

### Audit Committee

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

### Remuneration Committee

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

### Nomination Committee

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

### Auditors

KPMG

### Principal Bankers

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

### Legal Advisers

Conyers Dill & Pearman, Cayman  
Li & Partners

### Qualified Accountant and Company Secretary

Ms. Li Mei Kuen

### 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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**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

**Canadian Branch Share Registrar**

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

**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 2011 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 2011

	Notes	Unaudited Six months ended 30 June	
		2011 RMB'000	2010 RMB'000
Turnover	2	136,685	74,514
Cost of sales		<u>(106,404)</u>	<u>(66,540)</u>
Gross profit		30,281	7,974
Other income		49	419
Gains on fair value change on derivative financial instruments	12	17,020	—
Distribution costs		(2,244)	(2,536)
Administrative expenses		(20,433)	(9,827)
Other operating expenses		<u>(350)</u>	<u>(252)</u>
Profit/(Loss) from operations		24,323	(4,222)
Net finance costs	3(a)	<u>(4,162)</u>	<u>(82)</u>
Profit/(Loss) before taxation	3	20,161	(4,304)
Income tax	4	<u>(3,526)</u>	<u>—</u>
Profit/(Loss) for the period		<u>16,635</u>	<u>(4,304)</u>

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

For the six months ended 30 June 2011

	Notes	Unaudited	
		Six months ended 30 June	
		2011	2010
		RMB'000	RMB'000
<b>Other comprehensive income/ (loss) for the period:</b>			
Exchange differences on translation of:			
— financial statements of operations outside the People's Republic of China		<u>5,126</u>	<u>(3,626)</u>
<b>Total comprehensive income/(loss) for the period</b>		<b><u>21,761</u></b>	<b><u>(7,930)</u></b>
Attributable to:			
Equity holders of the Company		<b>21,761</b>	(7,942)
Non-controlling interest		<u>—</u>	<u>12</u>
		<b><u>21,761</u></b>	<b><u>(7,930)</u></b>
<b>Dividends</b>	5	<u>—</u>	<u>—</u>
<b>Earnings/(Loss) per share</b>			
Basic (RMB cents)	6	<b><u>0.72</u></b>	<b><u>(0.25)</u></b>
Diluted (RMB cents)	6	<b><u>0.72</u></b>	<b><u>(0.25)</u></b>

**Condensed Consolidated Statement of Financial Position**

At 30 June 2011

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2011</b>	2010
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>179,748</b>	69,345
Construction in progress		<b>374</b>	76
Lease prepayments		<b>61,970</b>	62,796
Intangible assets	15	<b>174,930</b>	6
Long-term prepayments		<b>10,988</b>	11,053
Deferred tax assets		<b>98,945</b>	105,213
Goodwill	15	<b>212,528</b>	—
<b>Total non-current assets</b>		<b>739,483</b>	248,489
<b>Current assets</b>			
Inventories		<b>44,052</b>	29,591
Trade and other receivables and prepayments	8	<b>440,945</b>	53,481
Amount due from related parties	17(b)	<b>21</b>	863
Lease prepayments		<b>1,597</b>	1,597
Cash and cash equivalents	9	<b>237,777</b>	276,802
<b>Total current assets</b>		<b>724,392</b>	362,334
<b>Total assets</b>		<b>1,463,875</b>	610,823

## Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2011

		Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
	Notes		
<b>Current liabilities</b>			
Trade and other payables	10	84,806	62,483
Notes payable	11	400,000	—
Interest-bearing bank borrowings		49,000	—
Amounts due to related parties	17(b)	2,305	1,522
Current taxation		19,162	19,637
Derivative financial instruments	12	57,855	—
<b>Total current liabilities</b>		<b>613,128</b>	<b>83,642</b>
<b>Net current assets</b>		<b>111,264</b>	<b>278,692</b>
<b>Non-current liabilities</b>			
Convertible bonds	12	29,437	—
<b>NET ASSETS</b>		<b>821,310</b>	<b>527,181</b>
<b>Capital and reserves</b>			
Share capital	14	118,042	101,850
Accumulated losses		(62,534)	(79,169)
Reserves		765,801	504,501
<b>Total equity attributable to equity holders of the Company</b>		<b>821,309</b>	<b>527,182</b>
<b>Non-controlling interest</b>		<b>1</b>	<b>(1)</b>
<b>TOTAL EQUITY</b>		<b>821,310</b>	<b>527,181</b>

**Condensed Consolidated Cash Flow Statement**

For the six months ended 30 June 2011

	<i>Notes</i>	<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2011</b>	<b>2010</b>
		<b>RMB'000</b>	<b>RMB'000</b>
Net cash used in operating activities		<b>(43,601)</b>	(6,756)
Net cash used in investing activities		<b>(95,436)</b>	(31,115)
Net cash generated from financing activities		<b>5,187</b>	34,127
Effects of exchange rate changes		<b>(5,175)</b>	(3,622)
Net decrease in cash and cash equivalents		<b>(139,025)</b>	(7,366)
Cash and cash equivalents at 1 January		<b>276,802</b>	229,974
Cash and cash equivalents at 30 June	9	<b>137,777</b>	222,608



## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

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

	Unaudited								Non-controlling Interest	Total Equity
	Six months ended 30 June 2010									
	Share Capital	Merger Reserve	Share Premium	Statutory Reserves	Capital Reserve	Exchange Reserve	Accumulated Losses	Total		
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)
<b>At 30 June 2010</b>	<b>86,992</b>	<b>(11,085)</b>	<b>319,109</b>	<b>92,749</b>	<b>941</b>	<b>(8,668)</b>	<b>61,254</b>	<b>541,292</b>	<b>283</b>	<b>541,575</b>

## 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 2010. The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2010 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 2011. The adoption of such standards, amendments and interpretations did not have material effect on these results.

The Group has not early applied the following new standard, amendments or interpretations that have been issued but are not yet effective in the current period:

**Effective for accounting  
periods beginning on or after**

IFRS 9 <i>Financial instruments</i>	1 January 2013
Amendments to IAS 12 <i>Income taxes</i>	1 January 2012
Amendments to IFRS 7 <i>Financial instruments: Disclosures</i> — <i>Transfers of financial assets</i>	1 July 2011

The Group is in the process of making an assessment of what the impact of these amendments, new standard and new interpretations is expected to be in the period of initial application. The Directors anticipate that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

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

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

## 2. Turnover and Segment Information

Turnover represents the sales value of goods and services sold less returns, discounts and value added taxes and other sales taxes. The Group manages its businesses by the operating subsidiaries in the People's Republic of China which are engaged in the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials, rechargeable batteries and storage and wholesale business of petrochemicals. The Group has identified the following reportable segments for the current period:

- Yixing Xinxing Zirconium Company Limited (“YXZL”)
- Yixing Better Batteries Company Limited (“YBBL”)
- Binhai Dragon Crystal Chemicals Company Limited (“BHDC”)
- P.T.Asia Prima Resources (“APR”)
- Muntari Holdings Limited and its subsidiaries (“Muntari Group”), acquired during the six months ended 30 June 2011 (Note 15)

## (a) Segment results, assets and liabilities

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

	YXZL		YBBL		BHDC		APR		Muntari Group		Total	
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	Six months ended	30 June	Six months ended	30 June	Six months ended	30 June	Six months ended	30 June	Six months ended	30 June	Six months ended	30 June
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	RMB'000		RMB'000		RMB'000		RMB'000		RMB'000		RMB'000	
Revenue from external customers	78,072	67,386	8,043	7,128	—	—	—	—	23,102	—	109,217	74,514
Inter-segment revenue	4,078	1,667	—	—	9,699	—	—	—	14,547	—	28,324	1,667
	Note (i)											
Reportable segment revenue	82,150	69,053	8,043	7,128	9,699	—	—	—	37,649	—	137,541	76,181
Reportable segment profit/(loss) before taxation	4,852	(486)	1,009	1,146	(2,165)	(462)	—	—	13,704	—	17,400	223
Net finance costs	1,135	17	30	(2)	(1)	—	55	67	140	—	1,359	82
Depreciation and amortisation	1,764	4,178	165	156	1,624	179	78	—	2,119	—	5,750	4,513

	YXZL		YBBL		BHDC		APR		Muntari Group		Total	
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
	30	31	30	31	30	31	30	31	30	31	30	31
	June	December	June	December	June	December	June	December	June	December	June	December
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets	385,526	407,719	23,279	21,204	79,297	76,438	—	—	753,309	—	1,241,411	505,361
Reportable segment liabilities	(135,276)	(162,362)	(3,809)	(2,742)	(126,497)	(121,373)	(2)	(2)	(486,581)	—	(752,165)	(286,479)

Note (f)

Note:

- (i) The Company completed the acquisition of Muntari Group on 6 January 2011. Accordingly, the segmental information of the Muntari Group for the six months ended 30 June 2011 was presented and no comparative information for the same period in prior year was presented.

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b>Revenue</b>		
Reportable segment revenue	<b>137,541</b>	76,181
Elimination of inter-segment revenue	<b>(28,324)</b>	(1,667)
Other segment revenue	<b>27,468</b>	—
Consolidated turnover	<b><u>136,685</u></b>	<b><u>74,514</u></b>
<b>Profit/(Loss)</b>		
Reportable segment profit	<b>17,400</b>	223
Operating loss of other segment	<b>(211)</b>	—
Other gains (Note 12)	<b>17,020</b>	—
Unallocated head office and corporate expenses	<b><u>(14,048)</u></b>	<b><u>(4,527)</u></b>
Consolidated profit/(loss) before taxation	<b><u>20,161</u></b>	<b><u>(4,304)</u></b>

## Sino Dragon New Energy Holdings Limited

	<b>30 June 2011 (unaudited) RMB'000</b>	31 December 2010 (audited) RMB'000
<b>Assets</b>		
Reportable segment assets	1,241,411	505,361
Elimination of inter-segment receivables	(113,054)	(121,329)
Deferred tax assets	98,945	105,213
Goodwill	212,528	—
Unallocated head office and corporate assets	<u>24,045</u>	<u>121,578</u>
Consolidated total assets	<u><b>1,463,875</b></u>	<u><b>610,823</b></u>
<b>Liabilities</b>		
Reportable segment liabilities	752,165	286,479
Elimination of inter-segment payables	(209,025)	(205,951)
Unallocated head office and corporate liabilities	<u>99,425</u>	<u>3,114</u>
Consolidated total liabilities	<u><b>642,565</b></u>	<u><b>83,642</b></u>



### 3. Profit/(Loss) before Taxation

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>(a) Net finance costs:</b>		
Interest income	<b>(1,433)</b>	(36)
Interest on bank borrowings wholly repayable within five years	<b>1,715</b>	—
Imputed interest expenses on convertible bonds	<b>2,820</b>	—
Net exchange loss	<b>1,060</b>	118
	<b>4,162</b>	82
<b>(b) Staff costs:</b>		
Salaries, wages and other benefits	<b>6,467</b>	6,339
Contributions to defined contribution retirement scheme	<b>325</b>	286
	<b>6,792</b>	6,625
<b>(c) Other items:</b>		
Amortisation		
— lease prepayments	<b>827</b>	857
— intangible assets	<b>—</b>	14
Depreciation	<b>4,930</b>	3,648
Research and development costs	<b>—</b>	—
Operating lease charges in respect of the office premises in Hong Kong	<b>333</b>	347
Cost of inventories	<b>98,684</b>	66,540

## 4. Income Tax

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<hr/>		
<b>Current tax — the People's Republic of China (the "PRC") income tax</b>		
Provision for the period	<u><u>3,526</u></u>	<u><u>—</u></u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u><u>—</u></u>	<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 2010 and 2011.
- (iii) Pursuant to the Corporate Income Tax Law of the PRC ("PRC Tax Law") effective from 1 January 2008, the Group's subsidiaries in the PRC are subject to Corporate Income Tax ("CIT") at a tax rate of 25% on the assessable profits for the six months ended 30 June 2010 and 2011.

No CIT provision has been made for Yixing Xinxing Zirconium Company Limited as it incurred tax losses for both six months ended 30 June 2010 and 2011.

*As a production-oriented foreign investment enterprise ("FIE"), Yixing Better Batteries Company Limited ("YBBL") had kick off its Tax Holiday ("Tax Holiday") under the old PRC Corporate Income Tax regime in 2008. As such, YBBL was exempted from CIT in 2008 and 2009. The unexpired Tax Holiday enjoyed by FIE established before 16 March 2007 is allowed to continue after implementation of PRC Tax Law until expiry of the Tax Holiday. As such, the applicable CIT rate of YBBL is 12.5% in years 2010 to 2012 and 25% thereafter. No CIT provision has been made for YBBL for both six months ended 30 June 2010 and 2011 as YBBL has sufficient tax losses brought forward to offset the assessable profits for the period.*

*No CIT provision has been made for Binhai Dragon Crystal Chemicals Company Limited as it did not have any assessable profits for both six months ended 30 June 2010 and 2011. No CIT provision has been made for Ningbo Bokun Petrochemicals Storage Co., Ltd. as it did not generate assessable profit during the period. CIT provision has been made for Ningbo Lianyi Enterprise Management Consulting Co., Ltd. at a tax rate of 25% on the assessable profits for the six months ended 30 June 2011.*

- (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 2010 and 2011.*

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 2011 (Six months ended 30 June 2010: Nil).

## 6. Earnings/(Loss) per Share

The calculation of basic and diluted earnings/(loss) per share for the six months ended 30 June 2011 is based on the following data:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Earnings/(Loss)</b>		
Earnings/(Loss) for the purpose of basic and diluted earnings/(loss) per share	<b><u>16,635</u></b>	<b><u>(4,316)</u></b>

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>No. of Shares</b>	<b>No. of Shares</b>
<b>Weighted Average Number of Shares</b>		
Weighted average number of ordinary shares (basic)	<b>2,311,436,995</b>	1,706,676,897
Effect of deemed issue of shares under the Company's Share Option Schemes for nil consideration	<b><u>14,088,612</u></b>	<u>279,280</u>
Weighted average number of ordinary shares (diluted)	<b><u>2,325,525,607</u></b>	<b><u>1,706,956,177</u></b>

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

## 7. Property, Plant and Equipment

During the six months ended 30 June 2011, the Group acquired items of plant and machinery with a cost of RMB2,652,000 (six months ended 30 June 2010: RMB1,808,000). During the six months ended 30 June 2011, the Group did not dispose any machinery and equipment (Six months ended 30 June 2010: Nil).

At 30 June 2011, the Group was in the process of obtaining the relevant property ownership certificates of certain buildings in the PRC and Indonesia from the relevant government authorities, the carrying value of which amounted to approximately RMB7,255,000 (31 December 2010: RMB7,376,000).

At 30 June 2011, the Group's plant and machinery with net carrying amount of approximately RMB110,749,000 (31 December 2010: Nil) were pledged to secure the Group's bank loans.

## 8. Trade and Other Receivables and Prepayments

	<b>30 June 2011 (unaudited) RMB'000</b>	31 December 2010 (audited) RMB'000
Trade receivables	<b>84,344</b>	24,541
Less: Allowance for doubtful debts	<b>(599)</b>	(599)
	<b>83,745</b>	23,942
Advance payments to suppliers	<b>339,711</b>	16,024
Deposits, prepayments and other receivables	<b>17,489</b>	13,515
	<b><u>440,945</u></b>	<b><u>53,481</u></b>

## (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 2011 (unaudited) RMB'000</b>	31 December 2010 (audited) RMB'000
Current	<u>71,130</u>	<u>21,116</u>
Less than 3 months past due	<b>12,566</b>	2,797
More than 3 months but less than 1 year past due	<u>49</u>	<u>29</u>
Amounts past due	<u>12,615</u>	<u>2,826</u>
	<b><u>83,745</u></b>	<b><u>23,942</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 2011, the Group's trade receivables of RMB599,000 (31 December 2010: RMB599,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB599,000 (31 December 2010: RMB599,000) were recognised. The Group does not hold any collateral over these balances.

**(c) Trade receivables that are not impaired**

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

	<b>30 June 2011 (unaudited) RMB'000</b>	31 December 2010 (audited) RMB'000
Neither past due nor impaired	<u>71,130</u>	<u>21,116</u>
Less than 3 months past due	<b>12,566</b>	2,797
More than 3 months but less than 1 year past due	<u>49</u>	<u>29</u>
	<u><b>12,615</b></u>	<u>2,826</u>
	<u><b>83,745</b></u>	<u>23,942</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 2011 (unaudited) RMB'000</b>	31 December 2010 (audited) RMB'000
Pledged bank deposits with banks *		
(Note 11)	<b>100,000</b>	—
Cash at bank and in hand	<b>137,777</b>	276,802
Cash and cash equivalents in the consolidated statement of financial position	<b>237,777</b>	276,802
Pledged bank deposits maturing beyond three months when placed	<b>(100,000)</b>	—
Cash and cash equivalents in the consolidated cash flow statement	<b>137,777</b>	276,802

\* *The Group's pledged bank deposits were pledged as security for issuing bank acceptance notes to the Group's suppliers.*



## 10. Trade and Other Payables

	<b>30 June 2011 (unaudited) RMB'000</b>	31 December 2010 (audited) RMB'000
Trade payables	<b>13,106</b>	9,302
Receipts in advance from customers	<b>31,345</b>	575
Payable for construction costs and acquisition of property, plant and equipment	<b>20,798</b>	27,322
Other payables and accruals	<b>19,557</b>	25,284
	<b><u>84,806</u></b>	<b><u>62,483</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 2011 (unaudited) RMB'000</b>	31 December 2010 (audited) RMB'000
Within 3 months	<b>6,973</b>	6,287
3 months to 6 months	<b>4,231</b>	638
6 months to 1 year	<b>1,536</b>	562
Over 1 year	<b>366</b>	1,815
	<b><u>13,106</u></b>	<b><u>9,302</u></b>

## 11. Notes Payable

The outstanding notes payable as at 30 June 2011 comprised the notes payable issued to the petrochemicals suppliers of Ningbo Bokun and were all due to mature within 180 days.

The carrying amounts of the notes payable approximate to their fair values.

Notes payable balances as at 30 June 2011 were secured by pledged bank deposits of RMB100,000,000 (Note 9) and a guarantee provided by Shanghai Bokun Investment Co., Ltd., a company incorporated in the PRC and controlled by Mr. Wang Jia Wei, a substantial shareholder and director of the Company (Note 17 (c)).

## 12. Convertible Bonds

On 6 January 2011, the Company issued the following convertible bonds ("CB") as part of the consideration for the acquisition of Muntari Holdings Limited (Note 15):

	Tranche 1 CB	Tranche 2 CB
Principal amount (subject to adjustments)	HK\$65,000,000	HK\$65,000,000
Interest rate	Nil	Nil
Convertible into the Company's ordinary shares at HK\$0.05 each (number of shares)	144,444,444	144,444,444
Conversion price per ordinary share	HK\$0.45	HK\$0.45

On 14 June 2011, Tranche 1 CB was converted into 144,444,444 ordinary shares of the Company.

The fair value of the CB has been split between liability component and derivative component as follows:

	<b>Liability component (unaudited) <i>RMB'000</i></b>	<b>Derivative component (unaudited) <i>RMB'000</i></b>	<b>Total (unaudited) <i>RMB'000</i></b>
At 1 January 2011			
Fair value of convertible bonds at date of issuance	61,959	127,513	189,472
Imputed interest expense	2,820	—	2,820
Fair value gains on derivative component of Tranche 1 CB	—	(17,020)	(17,020)
Transfer of fair value upon conversion of Tranche 1 CB	<u>(35,342)</u>	<u>(52,638)</u>	<u>(87,980)</u>
At 30 June 2011	<u><u>29,437</u></u>	<u><u>57,855</u></u>	<u><u>87,292</u></u>

### 13. Equity-Settled Share-Based Transactions

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the “Old Scheme”) was approved and adopted and, the Board may, at its discretion, grant share options (“Options”) to the eligible persons as defined in the Old Scheme. The Old Scheme was terminated on 27 May 2011, such that no further Options could thereafter be offered under the Old Scheme but in all other respects and provisions of the Old Scheme shall remain in full force and effect.

Pursuant to the resolution passed by the shareholders of the Company in the Annual General Meeting held on 27 May 2011, a new Share Option Scheme (the “New Scheme”) was approved and adopted and, the Board may, at its discretion, grant Options to the eligible persons as defined in the New Scheme. The New Scheme will expire on 27 May 2021.

## Sino Dragon New Energy Holdings Limited

During the six months ended 30 June 2011, no Options (2010: 6,400,000 Options) were granted under the Old Scheme and 27,480,000 Options were granted under the New Scheme (2010: Nil).

The terms and conditions of the unexpired and unexercised Options at 30 June 2011 are as follows:

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

	Date of grant	Exercise period	Number of Options				Exercise Price per share HK\$
			At 1 January 2011	Granted during the period	Exercised during the period	At 30 June 2011	
<b>Independent Non-Executive Directors</b>							
Cheng Faat Ting Gary	14/6/2011	14/6/2011–13/6/2016	—	200,000	—	200,000	0.818
Ji Chang Ming	31/5/2010	31/5/2010–30/5/2015	200,000	—	—	200,000	0.261
	14/6/2011	14/6/2011–13/6/2016	—	200,000	—	200,000	0.818
Poon Lai Yin Michael	14/6/2011	14/6/2011–13/6/2016	—	200,000	—	200,000	0.818
<b>Subtotal</b>			<u>200,000</u>	<u>600,000</u>	<u>—</u>	<u>800,000</u>	
<b>Contracted employee</b>	14/6/2011	14/6/2011–13/6/2016	—	600,000	—	600,000	0.818
<b>Third-party consultants</b>	15/8/2008	15/8/2008–15/8/2013	600,000	—	—	600,000	0.330
	3/12/2010	3/12/2010–2/12/2012	51,000,000	—	17,000,000	34,000,000	0.680
	21/6/2011	21/6/2011–20/6/2013	—	5,000,000	—	5,000,000	0.860
<b>Subtotal</b>			<u>51,600,000</u>	<u>5,000,000</u>	<u>17,000,000</u>	<u>39,600,000</u>	
<b>Total</b>			<u><u>51,800,000</u></u>	<u><u>32,680,000</u></u>	<u><u>17,000,000</u></u>	<u><u>67,480,000</u></u>	

#### **14. Share Capital**

The Company has authorised capital of 8,000,000,000 ordinary shares at HK\$0.05 each. As at 30 June 2011, 2,453,806,546 shares (31 December 2010: 2,070,139,880 shares) were issued and fully paid.

#### **15. Acquisition of subsidiaries**

On 6 January 2011, the Company completed the acquisition of the entire equity interest of Muntari Holdings Limited and it became an indirect wholly-owned subsidiary of the Company.

On the completion date, an intangible asset of RMB174,924,000 and goodwill of RMB212,528,000 were recognised by the Company. The intangible assets represented the fair value of the operating licenses held by the Muntari Group for the petrochemicals wholesale and storage businesses.

Goodwill arising from the acquisition represented the premium paid over the fair value of the identifiable net assets acquired by the Group in the acquisition. The terms for the purchase consideration payable, including the conversion price for the convertible bonds, have been determined when the Share Transfer Agreement was entered into on 4 November 2010. The conversion price was set at HK\$0.45 per share with reference to the then prevailing trading prices of the Company's shares. As the transaction was only completed on 6 January 2011, the fair values of the consideration paid, including the convertible bonds, were determined with reference to the closing share price of the Company on the completion date which was HK\$0.88. This resulted in a significant increase in the goodwill recognised for the acquisition.

The goodwill is attributable to future expected profitability of the acquired business, 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.

## 16. Commitments

### (a) Capital Commitments

	<b>30 June 2011 (unaudited) RMB'000</b>	31 December 2010 (audited) RMB'000
Contracted for	<b>7,023</b>	7,023
Authorised but not contracted for	<u>—</u>	<u>—</u>
	<b><u>7,023</u></b>	<b><u>7,023</u></b>

- (b) At 30 June 2011, the Group had a commitment of US\$561,000 (31 December 2010: US\$561,000) equivalent to RMB3,626,000 (31 December 2010: RMB3,715,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

## 17. Material Related Party Transactions

### (a) Recurring transactions

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 2011 (unaudited) RMB'000	31 December 2010 (audited) RMB'000
Notes			
Amounts due from related parties:			
— Yang Zhen	(i) and (iii)	21	—
— Director of the Company	(i)	—	863
		<b>21</b>	<b>863</b>
		<b>21</b>	<b>863</b>
Amounts due to related parties:			
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (ii)	(1,138)	(1,138)
— Directors of the Company	(i)	(1,167)	(384)
		<b>(2,305)</b>	<b>(1,522)</b>
		<b>(2,305)</b>	<b>(1,522)</b>

Notes:

- (i) *The balances at 30 June 2011 and 31 December 2010 are unsecured, non-interest bearing and repayable on demand.*
- (ii) *The party is related to the extent that Mr. Yang Xin Min, a substantial shareholder and director of the Company, is also the sole owner of the related company.*
- (iii) *The party is related to the extent that Mr. Yang Xin Min is the father of the related party.*



(c) **Guarantee provided by related party for banking facilities**

As at 30 June 2011, the Group's notes payable of RMB400,000,000 (Note 11) were secured by pledged bank deposits of RMB100,000,000 (Note 9) and a guarantee provided by Shanghai Bokun Investment Co., Ltd., a company incorporated in the PRC and controlled by Mr. Wang Jia Wei, a substantial shareholder and director of the Company.

(d) **Key management personnel remuneration**

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Short-term employee benefits	<b><u>1,555</u></b>	<u>1,745</u>

**18. Events After the End of the Reporting Period**

On 20 July 2011, the Company, Kanway Investments Limited (a wholly-owned subsidiary of the Company, “the Purchaser”), and Mr. Wang Xiao Ping Peter (“the Vendor”) entered into a share transfer agreement (“Share Transfer Agreement”), pursuant to which the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the entire issued share capital of Haney Holdings Limited as of the date of the Share Transfer Agreement free from encumbrance but together with all rights attached or accruing thereto at a consideration of HK\$410 million. The consideration is to be satisfied as to HK\$130 million in cash upon completion of the transaction and as to HK\$280 million (subject to adjustments) by the Company allotting and issuing consideration shares in three tranches. For further details please refer to the Company’s announcement dated 20 July 2011 and 26 August 2011.

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

The unaudited interim financial statements was approved and authorised for issue by the Board on 29 August 2011.

## 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

#### Acquisition Completed During the Current Period

On 6 January 2011, the Group completed the acquisition of the entire equity interest in Muntari Holdings Limited ("Muntari") (details of the transaction was disclosed in the Company's announcement dated 4 November 2010 and circular dated 14 December 2010). Muntari is an investment holding company and its principal assets are its 100% equity interest in Muntari Investments (HK) Limited ("Muntari HK") and Ningbo Liangyi 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"). Accordingly, commencing from 6 January 2011, the financial results of Muntari, Muntari HK, Ningbo Liangyi and Ningbo Bokun (collectively, the "Muntari Group") were consolidated in the accounts of the Group. Ningbo Lianyi and Ningbo Bokun are principally engaged in the provision of agency services on trading of petrochemicals and storage services of petrochemicals in the PRC. The Company's management has identified the Muntari Group as a new reportable segment and the corresponding segmental information has been presented in Note 2 of the unaudited interim financial statements for the period ended 30 June 2011.

## Business and Financial Review

During the six months ended 30 June 2011, the Group's zirconium chemicals business has further improved as a result of the global economic rebound. Sales to external customers of zirconium segment has increased by 16% from RMB67,386,000 in prior period to RMB78,072,000 in the current period. Average gross margin of zirconium chemical products has also improved from 9% to 16%, notwithstanding that the cost of materials and direct labor have both increased significantly in the current period. The new plant in Binhai was in a test-run stage during the current period. The zirconium oxychloride produced by the Binhai plant were consumed internally as a feedstock for the production of medium- to high-end zirconium chemical products at the Yixing plant. As the material consumption rate is normally higher during the test-production process, the Binhai plant reported a loss before tax of RMB2,165,000 in the current period. The operation of the Binhai plant will be improved steadily in the second half year of 2011 and it is expected to contribute positively to the Group's consolidated results toward the end of this year.

The rechargeable batteries business maintained a steady growth in the period under review. Sales of rechargeable batteries had increased by 13% as compared to the same period in last year. It continued to contribute profit to the Group's consolidated results and the business of this segment is expected to maintain a similar growth rate for the rest of this year.

The operation of the Indonesian Joint Venture remains suspended during the current period due to the unstable political environment in the local area of the joint venture's plant. The Company's management has been actively seeking for opportunities in resuming the operation of the plant but up to the date of this report, no conclusive plan has been made.

During the period under review, the Muntari Group recorded a turnover of RMB23,102,000, represented the rental income from the petrochemical storage business and the commission income generated from the petrochemical trading business. The profit before taxation of Muntari Group for the current period was RMB13,704,000. As the petrochemical storage services are offered on a contract basis with an average lease period of one year, it is expected to provide a stable income stream for the Group. Petrochemical trading business is subject to seasonable factor with higher demand in winter, hence it is expected to have a higher contribution to the Group's turnover and profit in the second half year.

During the six months ended 30 June 2011, there was no change in the income tax rates applicable to the Company's subsidiaries in the PRC and Indonesia. Except for the Ningbo Lianyi which reported a taxable profit for the current period, all of the Company's subsidiaries were either incurring tax losses or not generating taxable profit during the six months ended 30 June 2011. Accordingly, tax provision has been made for Ningbo Lianyi in the current period.

### **Liquidity and Financial Resources**

The Group's consolidated total assets, total liabilities and net assets have all increased significantly in the current period as a result of the consolidation of the Muntari Group in the Group's consolidated accounts. The Group generally finances its operation by internally generated cashflow and banking facilities provided by its bankers. As at 30 June 2011, the Group's cash and bank balances (including pledged deposits) was approximately RMB237,777,000 (as at 31 December 2010: RMB276,802,000). The current ratio as at 30 June 2011 was approximately 1.2 (as at 31 December 2010: 4.3). The Company continued to maintain a strong financial position in the current period. The Directors considered that the Group shall have sufficient financial resources to meet the future expansion plan and working capital requirement after a due consideration of the net cash position and the availability of the existing banking facilities.

## Prospects

During the first half year of 2011, the zirconium chemicals market rebound quickly. This led to a dramatic increase in the demand for zircon sand and shortage in supply has driven the zircon price upwards significantly. Price of zircon has increased from an average of USD960 per tonne in the last quarter of 2010 to USD2,500 per tonne in the current period and there was no immediately available stock available in the market. Although the nuclear crisis in Japan has certain negative impact on the global development of nuclear power industry, the Chinese government has not reduced its confidence in expanding nuclear power supply. Since the proportion of nuclear power supply in the electricity market of China is relatively low as compared to the other developed countries, it is believed that the need for nuclear power and the corresponding demand for nuclear grade zirconium chemicals will continue to increase in the coming years. In addition, zirconium chemical is a key raw material for the production of other new materials or new energy and environmentally friendly products, we are optimistic in the prospect for zirconium chemical industry and we anticipate that the development of this segment in the coming years will be promising.

The test production of the new plant in Binhai has been running smoothly. Phase I of the new plant will have an annual capacity of 15,000 tonnes and its profit margin is expected to be higher that of the old plant in Yixing. Certain modifications and rearrangement of the Yixing plant has been done during the current period and it will mainly be used for the production of deep processed zirconium chemicals in future. Notwithstanding the increasingly stringent policies imposed by the Chinese government on environmental protection, the Company's production plants are now in full compliance with the relevant regulatory requirements. This will be a competitive advantage of the Group over the other zirconium chemicals manufacturers in China.

Upon the successful completion of the acquisition of the Muntari Group, it has started to make considerable contribution to the Group's results and financial performance in the current period. The Group will continue to expand its business in the storage and wholesale of petrochemical and other oil products. As disclosed in the Company's announcement dated 20 July 2011, the Company has entered into the Share Transfer Agreement for the acquisition of the entire equity interest in Haney Holdings Limited ("Haney"). Through its wholly-owned subsidiaries and certain contractual arrangements, Haney is engaged in the fuel oil storage and wholesale business. The Company is currently finalizing the due diligence procedures on Haney and its subsidiaries. Upon completion of such procedures, the Company will dispatch a circular to provide further information of the proposed acquisition for its shareholders. Given the growing demand for petrochemical and petroleum products in the PRC market, the Directors are confident in the future prospects of petrochemical and oil storage and wholesale business. The Company will be actively seeking for potential investment opportunities in this field.

### **Interim Dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011.

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

### Substantial Shareholder's Interests in Securities

As at 30 June 2011, 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:

Name of Shareholders	Number of Shares	Percentage of total Share Capital
Yang Xin Min	592,045,880	24.13%
Wang Jia Wei	366,666,666	14.94%

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 2011, 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:

<b>Name of Director</b>	<b>Nature of Interests</b>	<b>Number of shares and approximate percentage of shares interested</b>
Yang Xin Min	Personal	592,045,880 (24.13%)
Zhou Quan	Personal	40,000 (0.002%)
Li Fu Ping	Personal	144,000 (0.006%)
Fang Guo Hong	Personal	12,292,000 (0.50%)
Wang Jia Wei	Personal	366,666,666 (14.94%)
Cheng Faat Ting Gary	Personal	200,000 (0.008%)

## Share Options Granted Pursuant to the Share Option Scheme

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the “Old Scheme”) was approved and adopted and, the Board may, at its discretion, grant share options (“Options”) to the eligible persons as defined in the Old Scheme. The Old Scheme was terminated on 27 May 2011, such that no further Options could thereafter be offered under the Old Scheme but in all other respects and provisions of the Old Scheme shall remain in full force and effect.

Pursuant to the resolution passed by the shareholders of the Company in the Annual General Meeting held on 27 May 2011, a new Share Option Scheme (the “New Scheme”) was approved and adopted and, the Board may, at its discretion, grant Options to the eligible persons as defined in the New Scheme. The New Scheme will expire on 27 May 2021.

During the period ended 30 June 2011, no Options (2010: 6,400,000) have been granted under the Old Scheme and 27,480,000 Options (2010: Nil) have been granted under the New Scheme. Details of the Options outstanding as at 30 June 2011 were set out in note 13 to the Interim Financial Statements.

## Liquidity and Financial Resources

As of 30 June 2011, the Group’s cash and cash equivalents totalled RMB237,777,000 (31 December 2010: RMB276,802,000), of which RMB100,000,000 has been pledged as security for issuing bank acceptance notes to the suppliers. The decreased balance was mainly used in operating activities and in paying for the cash consideration of the acquisition in the current period.

At 30 June 2011, the Group’s banking facilities totalled RMB449,000,000 (31 December 2010: Nil), of which RMB49,000,000 loan facilities were secured by mortgages over certain plant and machinery of Ningbo Bokun with an aggregate carrying value as at 30 June 2011 of approximately RMB110,749,000 (31 December 2010: Nil). The remaining balance of RMB400,000,000 trade financing facilities were secured by pledged deposits of RMB100,000,000 and the guarantee provided to the Group by a related company (Note 17 (c)).

## **Contingent Liabilities**

At 30 June 2011, the Group had no material contingent liabilities.

## **Employees**

During the period ended 30 June 2011, the Group had an average of 345 employees (same period of 2010: 380 employees). In the first half year of 2011, the aggregate employee remuneration (including directors' fees) was approximately RMB6,792,000 (same period of 2010: RMB6,625,000). Notwithstanding the decrease in average number of staff in the current period, the staff cost has increased mainly because of the increasing labor wages in the PRC. The Group offers competitive salary packages to its employees who are also eligible for incentives based on their individual performance supplementing the Group's overall remuneration and bonus systems.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2011.

## **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 2011, 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 2011.

## **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 2011.

By order of the Board

**Yang Xin Min**

*Chairman*

Hong Kong, 29 August 2011