CHINA ZIRCONIUM LIMITED
中國鋯業有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 0395)

Annual Report
2007

* For identification purposes only

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheng Faat Ting Gary, CPA, HKICPA
Mr. Guo Jing Mao
Mr. Shi You Chun

FINANCIAL CONTROLLER AND COMPANY SECRETARY

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

AUDITORS

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

PRINCIPAL BANKERS

Bank of China, Yixing Sub-branch
No. 106 Taige Xi Road
Yicheng Town
Yixing City
Jiangsu Province
PRC

Bank of China, Xushe representative office
No. 121 Hongxin Road
Xushe Town
Yixing City
Jiangsu Province
PRC

Agricultural Bank of China
Xushe representative office
No. 2 Hongxin Road
Xushe Town
Yixing City
Jiangsu Province
PRC

The Hongkong & Shanghai Banking Corporation Limited
4th Floor
HSBC Building Tsim Sha Tsui,
82-84 Nathan Road
Tsim Sha Tsui
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PLACE OF BUSINESS AND CORRESPONDENCE ADDRESS IN HONG KONG

Suite 2611
Shell Tower, Times Square
1 Matheson Street
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(852) 2123 9986
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LEGAL ADVISERS

On Hong Kong Law
Li & Partners
Rooms 2201-2203
World Wide House
19 Des Voeux Road Central
Hong Kong

On Cayman Islands Law
Conyers Dill & Pearman, Cayman
Century Yard, Cricket Square
Hutchins Drive
George Town
Grand Cayman
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Wan Chai,
Hong Kong

Effective from 1 May 2008, the Hong Kong Branch Share Registrar and transfer office will be changed to:

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

Stock name: China Zirconium
Stock code: 0395

	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**541,510**	446,719	425,767	357,218	299,720
Gross profit margin (%)	**23%**	25%	25%	29%	33%
Profit attributable to shareholders	**61,464**	57,797	61,886	64,143	66,291
EBIT	**81,206**	78,712	73,224	74,882	76,513
EBITDA	**98,485**	95,842	87,921	86,662	82,324
Dividends — ordinary shares	**13,377**	15,857	17,303	17,700	19,800
Earnings per share — basic (RMB)	**0.095**	0.115	0.123	0.133	0.166
Earnings per share — diluted (RMB)	**0.095**	n/a	n/a	n/a	0.166
Debt-equity ratio	**net cash position**	net cash position	net cash position	net cash position	net cash position
Dividends payout ratio (%)	**22%**	27%	28%	28%	30%
Ordinary shares (shares)	**709,670,946**	504,170,946	504,170,946	504,170,946	400,000,000
Bank and cash balance	**253,152**	165,718	140,220	114,562	139,665
Cash per share (RMB)	**0.36**	0.33	0.28	0.23	0.35
Total assets	**861,101**	659,814	610,210	528,283	338,224
Net asset value	**766,764**	537,132	495,922	452,286	271,094
Net asset value per share (RMB)	**1.08**	1.07	0.98	0.90	0.68
Inventory turnover days	**52 days**	49 days	56 days	36 days	30 days
Debtors turnover days	**44 days**	39 days	34 days	32 days	32 days
Creditors turnover days	**12 days**	30 days	22 days	14 days	16 days

CORPORATE PROFILE

China Zirconium Limited (the "Company" or "China Zirconium", together with its subsidiaries the "Group"), was listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2002. The Company, formerly known as Asia Zirconium Limited, changed to its current name on 17 May 2007 in order to signify the increased importance of China in the global market. The Group is one of the largest zirconium chemicals manufacturers and exporter in the PRC. Leveraging on its advantages in zirconium chemicals industry, the Group has extended its business into the production and sale of zirconium-related new energy materials (used as electrode materials for batteries), electronic ceramic products and rechargeable batteries.

The Group started its operations in 1977 and is based in Yixing, Jiangsu Province, the PRC. With over thirty years' development, the Group has successfully transformed from a small-scale zirconium chemicals plant to an internationally renowned zirconium chemicals manufacturer with a sizable current annual production capacity of over 40,000 tonnes of various types of zirconium chemicals, 1,500 tonnes of new energy materials and 25 million pieces / sets of PTC heating components. In 2004, the Group established a new wholly-owned subsidiary in Yixing which specialised in the manufacture and sale of rechargeable batteries. It has developed and possessed intellectual property rights in the new type high temperature battery and power battery with zirconium additives. In 2007, the Group established a new wholly-owned subsidiary in Binhai city, Jiangsu province, the PRC, which will construct and operate a new zirconium production plant. Moreover, the Group expanded further into zircon mine business through the establishment of a joint venture in Indonesia.

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

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

The Group's products, with "Long Jing" as the registered trademark in the PRC, Japan, US & Hong Kong, has long been well-received by the international market. Products have been exported to Japan, US and Europe for 29 years, 17 years and 18 years, respectively. In 2001, the Group was accredited by the China Nonferrous Metals Association as the largest zirconium chemicals exporter in the PRC.

Along with the expansion of its business, the Group is also committed to improving operational efficiency and assuring high product quality. The Group has been awarded both the ISO14001 Environmental Management System Certification and the ISO9002 Quality Management System Certification. In 2003, the Group was also accredited as a state key high-tech enterprise. In addition, a number of the Group's products were appraised as high-tech products at state and provincial levels, among which the nanometric zirconium oxide and cerium zirconium compound were rated as Grand New Products by the state and were classified as "China Torch Programme" items.

Apart from the leading position of the Group in the PRC zirconium chemicals market, the experience and expertise of its Chairman, Mr. Yang Xin Min, is also highly appraised by the industry. In April 2004, Mr. Yang was elected by the industry as the Vice Chairman of the newly-established "China Nonferrous Metals Association - Zirconium and Hafnium Committee ". He was then elected as the Chairman in November 2006. He was also nominated a member of the expert team of the China Zirconium and Hafnium Institutional Committee for two consecutive terms. The management talent and industrial expertise of the Group are therefore widely recognised.

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

CHAIRMAN'S STATEMENT

The year under review has been eventful for the Company and our shareholders. In May 2007, the Company has entered into an agreement to make an investment in Jiangsu Binhai Economic Development Zone Chemical Industry Garden to construct a new zirconium production plant. The new plant has a designed annual capacity of 35,000 tonnes which, upon completion, will double-up the Company's existing production capacity. This new production facility has been designed to achieve the highest environmental protection standard across the industry in China and will have zero release of wastage, either in the form of gas, water or tailings. Phase One of the new plant is scheduled to commence production in the third quarter of 2008, following by Phase Two in late 2009.

Surging demand in recent years for zircon, which is key raw material in zirconium chemicals production process and numerous other industries, resulted in a tight supply and a significant increase in its price. To ensure the supply of this important raw material, the Company made a strategic investment in September 2007 by entering into a joint venture agreement with an Indonesian company, pursuant to which a joint venture company will be established to engage in separation, processing and refining of zircon in Indonesia. This project will involve the mining of mineral concentrates with significant zircon content in Central Kalimantan and the processing of the concentrates into marketable grade zircon. Construction of the mineral concentrates separation plant has begun and the first phase will commence operation in the second half year of 2008. This project marked a significant progress in the Company's plan for vertical integration. The joint venture will provide a long-term stable supply of zircon to our zirconium chemicals plants and other zircon users in China. Through its two production bases and with a secured source of major raw material, the Company will continue to increase investment, improve product mix, and expand production capacity to further solidify its leading position in the production of zirconium chemicals in China and globally.

In the coming years, the Company will be more actively seeking opportunities for strategic alliance or any other form of cooperation with local and overseas zirconium producers that will be contributable to a faster expansion of the Company's business and the creation of a synergy. We are committed to maximising long term returns to shareholders from strategic and prudent investment in the zirconium industry. We believe the Group as a whole is greater than the sum of its parts.

On behalf of the Board, I would like to express my sincere thanks to everyone at China Zirconium for their hard work and contribution, and to our shareholders, bankers and everyone else for their continuing supports. We look forward to the beginning of production and revenue at both the Binhai new plant and the Indonesian joint venture in 2008.

Yang Xin Min
Chairman

INDUSTRY REVIEW

Notwithstanding the government's macroeconomic tightening measures, the Chinese economy continued to grow rapidly in the past year. Even though the recent sub-prime problems have resulted in uncertainties in other markets, we believe that the Chinese economy will maintain its growth momentum for the foreseeable future. Tremendous industrial growth in China is expected to increase global consumption of zircon particularly in the form of ceramics and zirconium chemicals. The economic growth also enhanced the expansion of zirconium chemical market, mainly for applications in consumption products, oxidised zirconium ceramics and nuclear power. Being the world's major producer of zirconium oxychloride, a key basic material that is used in the nuclear power industry, the Chinese zirconium chemical producers are expected to benefit from the promotion of nuclear power in both China and the US.

On the supply side, the increased supply of Indonesian zircon eased the tight supply in the Chinese market. The very high prices of South African and Australian zircon in Chinese market have fallen away. The price trend of bagged zircon ex-Australia, which can be considered a leading indicator of the market, has been flat or even gone slightly downwards since second half of 2007. However, the effect of the lower zircon price has been partially offset by the higher freight rates. Hence, it is expected that the price of zircon will maintain at a stable but relatively high level. This in turns will constrain the profit margin of zirconium chemical producers.

BUSINESS REVIEW

During the year under review, the operating environment remained challenging. In 2007, various factors exerted pressure on the Company's profit margin, including high prices of zircon and other key raw materials; escalating labour costs and the cancellation of export tax refunds effective from 1 July 2007. The appreciation of Renminbi also has some effects on the margin of our zirconium products, though not significant, in the sense that the exchange rate risk might not be fully transferable to our overseas customers with which we traded in US dollars. Notwithstanding the unfavorable operating factors, the Company continued to achieve a double-digit growth in the turnover of zirconium business. On the other hand, development and results of the new energy materials segment and battery segment were not as promising as previously planned. During the year, the management had strategically controlled the size of operations of these two business lines at a breakeven level. The Group will continue to closely scrutinise the operating environment and implement prompt and suitable strategy to cope with the market sentiment.

OUTLOOK AND FUTURE PROSPECT

Operation overheads and production costs will continue to rise with the prices of zircon and other key raw materials remaining at a relatively high level, if not increasing further. Despite the increasingly difficult operating environment, the growing demand for zirconium chemical products both globally and domestically in PRC provides a good market sentiment for the development of zirconium chemical business. The Company considers it a good timing for increasing investment in capacity and business scope expansion. Hence, the management decided to propose a lower dividend pay-out ratio in current year in order to maintain more financial resources for new investment opportunities that could lead to long-term benefit to the Group and its shareholders.

Looking ahead, the Company will work to reinforce its competitiveness by investing resources to enhance product quality and diversify product types, in particular with more focus on high-yield products. The Company endeavored to maximize return for its shareholders by developing itself into a world-class zirconium chemicals and zircon producer.

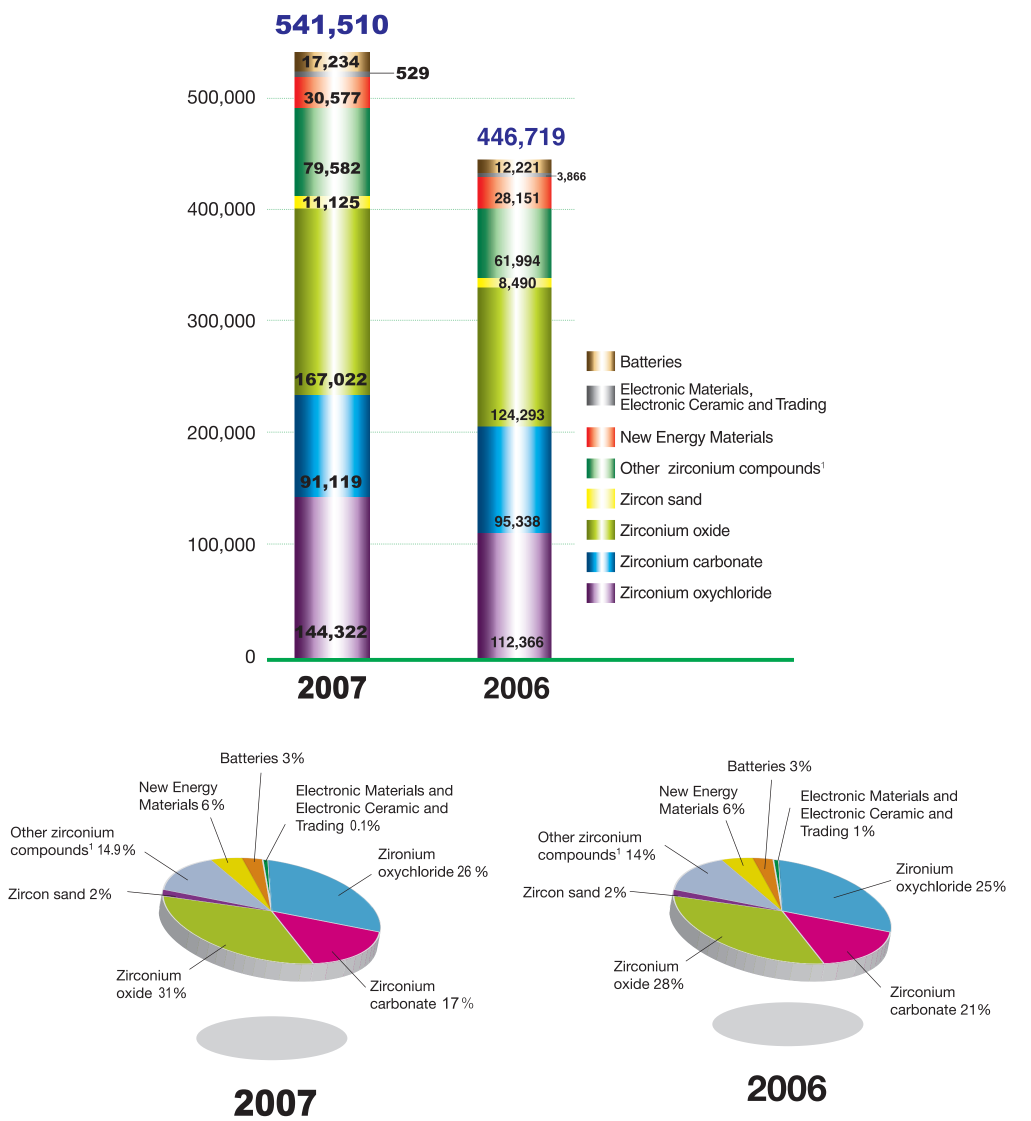
FINANCIAL REVIEW

Turnover Analysis

For the year ended 31 December 2007 (the "Year"), the Group reported a total turnover of RMB541,510,000, represented a year-to-year growth of 21%. Zirconium chemicals segment continued to be the major revenue generator, contributed to 91% of total turnover, while the new energy materials and battery business contributed 6% and 3%, respectively. The Group's chemical plant in Yixing city was operated at full capacity for certain products. The rise in production was attributable to continued strong demand for the Group's chemical products both domestically in China and overseas. The new production plant in Binhai city will commence operation in the third quarter of 2008 which will increase our revenue generating power.

Turnover analysis by product category

The charts below are a comparison of the Group's turnover by product category for the year ended 31 December 2007 and 31 December 2006 and the proportion of turnover for the relevant product categories:



Note 1: "Other zirconium compounds" included potassium zirconium hexafluoride, zirconium sulphate, zirconium acetate, zirconium silicate and ammonium zirconium hexafluoride, etc.

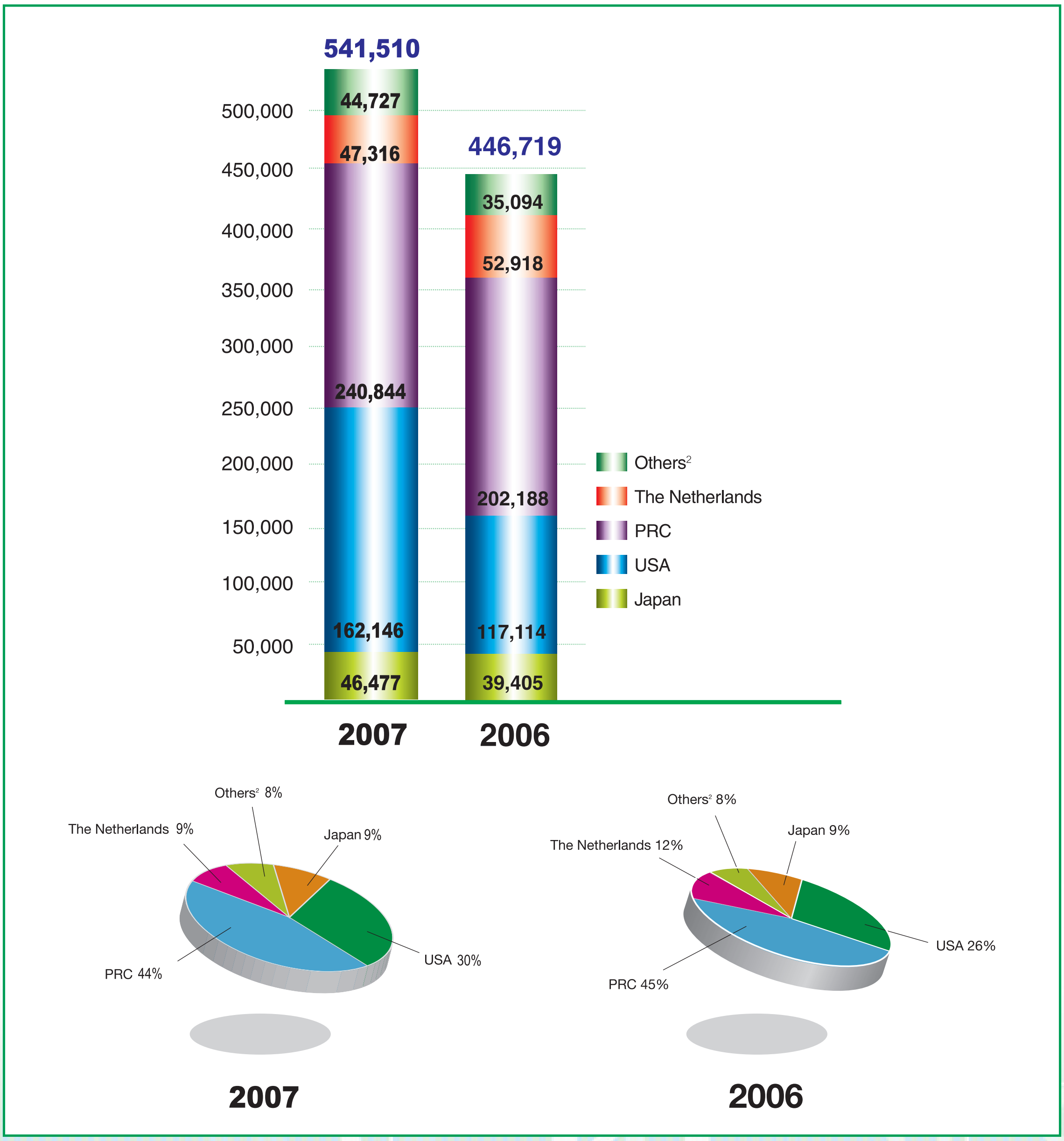
Total sales of zirconium chemicals increased by 23%, from RMB402,481,000 in 2006 to RMB493,170,000 in 2007. The rise was attributed to the continued strong demand for the Group's products both in the local and export markets. The solid performance was the result of a further enhancement of product mix in current year, which was reflected in the percentage of sales contributed by zirconium oxides increasing from 28% to 31% .

Total turnover of new energy materials increased from RMB28,151,000 in last year to RMB30,577,000 in current year. Although the growth in revenue and results in this segment was not as promising as planned, the management will continue to flexibly adjust the production and sales plan of new energy materials so as to constrain the negative effect of the rising raw materials prices on the overall profitability of the Group. The Company's strategy is to maintain a cost effective operating structure and achieve a reasonable profit margin.

Battery segment reported a turnover of RMB17,234,000 in 2007, represented a 41% growth from last year. With the increasing attention in the market of the Group's new high temperature batteries with zirconium additive, the management is confident that the performance of battery segment will pick up gradually in the next two years.

Turnover analysis by geographical region

The following charts presented a year-to-year comparison of the 2007 and 2006 turnover in terms of geographical locations:



Note 2: "Others" included the United Kingdom, Germany, Korea, India, Austria, Lithuania, South Africa, Columbia, Brazil, Turkey, New Zealand and Italy, etc.

Export sales rose 23% to RMB300,666,000, represented 56% of the consolidated revenue. Major growth came from the US market, particularly in the nuclear power industry. Sales to the US market accounted for 30% of the Group's total sales in current year, as compared to 26% in prior year. The Group shifted its focus to the US market which has solid demand and a higher growth potential, and correspondingly sales to the Netherlands dropped. The Japan market continued to report solid performance, with a 18% growth in sales to RMB46,477,000.

Domestic sales for the year was RMB240,844,000, represented 44% of total turnover or a 19% increase from prior year. This is the successful result of the strategy in reducing the sale of low end product zirconium oxychloride and further processing it into higher value-added products, such as zirconium carbonate and zirconium oxides.

Gross Profit and Gross Margin

Gross profit for the year increased by 10% to RMB124,598,000, with the average gross margin at 23%. The management's continuing effort in improving the product mix, enhancing coordination in raw material purchasing and expanding product sales and marketing in industries with high growth potential are all important factors in achieving a stable growth in both revenue and profit.

Capital Expenditure

The capital expenditures for the year ended 31 December 2007 and 2006 were approximately RMB76,463,000 and RMB20,457,000, respectively. The significant increase in current year is mainly for the upgrading and capacity expansion of the production plant in Yixing. Return on the capital investment has been partly reflected in the turnover and profit growth for the year.

Liquidity and Financial Resources

The Group continued to be cash positive in 2007. As at 31 December 2007, the Group's bank and cash balances were approximately RMB253,152,000. (2006: RMB165,718,000). The Group continued to maintain a strong and healthy financial structure.

The Group's trade receivables turnover days increased from 39 days in 2006 to approximately 44 days in 2007. Nevertheless, the Group has not experienced significant bad debt problems and continued to maintain a healthy record of trade receivables turnover.

The inventory balance as at 31 December 2007 increased by approximately 21% to RMB64,758,000, which mainly represented by the higher level of zircon stock we kept in the warehouse. Inventory turnover days increased from 49 days to 52 days.

Exposure to Foreign Exchange Risk

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

Contingent Liabilities

As at 31 December 2007, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2007, the Group did not pledge any assets (2006: Nil) as securities for the banking facilities granted by its bankers.

Human Resources

As at 31 December 2007, the Group had a total of approximately 743 employees (2006: 710 employees). Total staff costs (including directors' emoluments) for the year was approximately RMB19,887,000 (2006: RMB18,686,000), representing 4% of the Group's turnover (2006: 4%). Employees were remunerated based on their performance, experience and prevailing industry practice. Bonuses and rewards might also be awarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis.

EXECUTIVE DIRECTORS

Mr. Yang Xin Min, aged 58, senior economist, is the founding Chairman, Managing Director and controlling shareholder of the Company. Mr. Yang graduated from the Beijing Economics Correspondence College. Since August 1977, Mr. Yang has been the General Manager of all predecessor entities of the Group. Mr. Yang has over 30 years' experience in the research, production management and international market development of zirconium chemicals. Mr. Yang is responsible for the formulation of the Group's overall business strategies and overseeing the daily operations of the Group. He was elected as the chairman of the "China Nonferrous Metals Association - Zirconium and Hafnium Committee and a member of its expert team for two consecutive terms.

Ms. Huang Yue Qin, aged 39, senior economist, is the Deputy General Manager and Head of the Sales, Purchasing and Marketing Departments of the Group's zirconium business. Ms. Huang joined the Group in 1991 and has over 10 years of import and export experience in the zirconium chemicals industry. Ms. Huang has frequently visited clients in the USA, Japan and Europe, and maintained very good relationship with the Group's overseas customers.

Mr. Zhou Quan, aged 49, joined the Group in 1993. Mr. Zhou is the Deputy General Manager of Better Batteries, assisting the Chairman in the overall management of the Group and supervising the battery business. Mr. Zhou has extensive experience in business administration.

Mr. Li Fu Ping, aged 38, senior economist, is the Deputy General Manager of the Group. Mr. Li graduated from the Jiangsu University of Chemistry, where he majored in business administration, and was the chairman of the student union of the university. Since joining the Group in 1992, he has engaged in business administration and has been the secretary to the General Manager of the Group. As such, Mr. Li has accumulated extensive experience in business administration. He is a key member of the Group's internal audit committee for ISO9002 quality assurance accreditation and is in charge of the ISO14001 environmental management system. He is also responsible for intellectual property right management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheng Faat Ting Gary, aged 39, was appointed as an independent non-executive Director of the Company in November 2001. Mr. Cheng is a professional accountant in both Hong Kong and the USA. Mr. Cheng received his Bachelor's degree in Business Administration (Honours) and Master's degree of Business Administration from Southern Illinois University at Carbondale, the USA, in 1992 and 1994 respectively. Mr. Cheng has worked at the international accounting firm, PricewaterhouseCoopers and has extensive experience in auditing and accounting, in particular, in financial institutions. He is currently the principal of Gary Cheng & Co., C.P.A.

Mr. Guo Jing Mao, aged 68, was appointed as an independent non-executive Director of the Company in October 2000. Mr. Guo is a retired first-generation expert in zirconium elements. Mr. Guo graduated from Beijing Science and Technology University and specialised in the research on zirconium and other alloy. Mr. Guo has been a senior engineer at the China Nonferrous Metals Association for 13 years before his retirement in 1999.

Mr. Shi You Chun, aged 51, was appointed as an independent non-executive Director of the Company in September 2004. Mr. Shi joined Nanjing University in 1982 and is currently a professor in the Marketing Faculty of the School of Business at Nanjing University. Mr. Shi graduated with a bachelor degree from the Department of Management Science at Fudan University. He has in the past few years conducted researches and analyses in the areas of sales and marketing, and public relations. He also has expertise in strategic planning, and design and promotion of corporate image. Mr. Shi has published a number of books, dissertations and articles in relation to the abovementioned areas. He has been a member of China Industrial Economics Association (全國工業經濟學會), Jiangsu Province Hi-Tech Research Association (江蘇高新科技研究會) and China Marketing Research Association (全國市場研究協會). He had also been elected as the vice chairman of Jiangsu Province Business Psychology Association (江蘇省商業心理學會) and the committee member of Nanjing Consumers' Association (南京市消費者協會).

SENIOR MANAGEMENT

Ms. Li Mei Kuen, aged 39, is the Financial Controller and Company Secretary of the Group. Ms. Li graduated from La Trobe University, Melbourne, Australia and received a bachelor degree in commerce (accounting). She is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Before joining the Group, Ms. Li has worked in two international accounting firms for over 9 years. She has been actively involved in the audit, listing and due diligence engagements of companies in various industries and has extensive experience in auditing and finance.

Ms. Sun Hong Di, aged 40, is the Deputy General Manager and Head of the Technology and Quality Control Department of the Group's zirconium business. Ms. Sun joined the Group in 1990 and has been responsible for quality control, analysis and monitoring of zirconium chemicals. Ms. Sun has been involved in devising the national quality standards for zirconium chemical products with the former Ministry of Chemical Industry of the PRC. Ms. Sun is the leader of the Group's working team for the ISO9002 accreditation and is also supervising the zirconium research and development works.

Mr. Liu Hong Bing, aged 33, is the Deputy General Manager of Better Batteries. Mr. Liu received his MPhil degree from the Department of Chemical Engineering of Tsinghua University. From 1998 to 2002, Mr. Liu worked in a renowned PRC battery manufacturer and held the positions of process technique researcher in the central research division, supervisor in materials evaluation and supervisor in the production technology of NiCd and NiMH batteries under the technology division. Mr. Liu joined the Company in 2005. He has extensive knowledge and solid experience in the principal technology and production technique of NiCd, NiMH and Li-ion batteries. He took a leading role in the development of high temperature battery with zirconium additives, for which the Group has applied for intellectual property right.

Ms. Wu Si Hui (also known as Wu Xi Wei), aged 39, graduated from Jiangsu Television University majoring in international trade and economics. Since joining the Group in 1991, Ms. Wu has been responsible for the financial function of the Group, and is currently the Finance Manager of Yixing Zirconium. She has extensive experience in financial management and has maintained good relationships with local and national tax authorities, customs departments, commodity inspection authorities, foreign exchange control authorities and various banks.

CORPORATE GOVERNANCE PRACTICE

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

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

BOARD OF DIRECTORS

Composition

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

Executive Directors	:	Mr. Yang Xin Min *(Chairman)*
		Ms. Huang Yue Qin
		Mr. Zhou Quan
		Mr. Li Fu Ping
INEDs	:	Mr. Cheng Faat Ting Gary
		Mr. Guo Jing Mao
		Mr. Shi You Chun

The Board membership is covered by professionally qualified and widely experienced personnel so as to bringing in valuable contribution and different professional advices and consultancy for the development of the Company. The number of INEDs exceeds one-third of the Board membership.

Biographies of all Directors are set out on pages 17 to 18.

Appointments, Re-election and Removal of Directors

Code provision A.4.1 of the Code on CGP stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 of the Code on CGP stipulates that all Directors appointed to fill a casual vacancy should be subject to election by Shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the INEDs, has entered into a service contract with the Company for a term of two or three years. At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office.

A Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

Role and Function

Save for the Board meetings held between the Executive Directors during the normal course of business, the Board conducted at least four regular Board meetings a year at approximately quarterly intervals. Such Board meetings involve active participation, either in person or through other electronic means of communication, of a majority of Directors. During the Year, four regular board meetings were held and the attendance of each Director is set out as follows:

Directors	No. of meetings attended
Mr. Yang Xin Min	4 / 4
Ms. Huang Yue Qin	4 / 4
Mr. Zhou Quan	4 / 4
Mr. Li Fu Ping	4 / 4
Mr. Cheng Faat Ting Gary	3 / 4
Mr. Guo Jing Mao	3 / 4
Mr. Shi You Chun	3 / 4

INEDs

The Company has appointed three INEDs, of whom Mr. Cheng Faat Ting Gary possesses recognised accounting professional qualifications in both Hong Kong and the United States.

The Company has received annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent within the definition of the Listing Rules.

Chairman and CEO

Under the Code on CGP, the roles of Chairman and CEO should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. Mr. Yang Xin Min has been the Chairman and the CEO of the Company since its incorporation and is in charge of the overall management of the Company and the Group. The Company considers that the combination of the roles of Chairman and CEO is conducive to strong and consistent leadership and can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its INEDs, a balancing mechanism between the Board and the management of the Company exists so that the interests of the shareholders are adequately and fairly represented.

BOARD COMMITTEES

There are three committees established under the Board:

(a) Audit Committee

The Audit Committee, comprises all INEDs of the Company, is chaired by Mr. Cheng Faat Ting Gary who is a professional accountant and has proven experience in audit, finance and accounting.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting than those set out in the Code on CGP. The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company. Each member of the Audit Committee has unrestricted access to the external auditors and all senior staff of the Group.

The Audit Committee met twice in the Year, in particular, to review and discuss:

— the interim results and annual audited financial statements;

— the auditing and financial reporting matters, including the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2006;

— the appointment of external auditors; and

— the effectiveness of internal control procedures.

All issues raised by the Audit Committee have been addressed by the management of the Company. The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the management of the Company were of sufficient importance to require disclosure in the Annual Report.

The Board agrees with the Audit Committee's proposal for the re-appointment of KPMG as the Company's external auditors for 2008. The recommendation will be put forward for the approval of the shareholders of the Company at the Annual General Meeting to be held on 15 May 2008.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comment and record respectively.

During 2007, KPMG, the Company's external auditors, received approximately RMB1,163,000 for annual audit service. KPMG did not provide any other non-audit services (including taxation services) during the year.

(b) Remuneration Committee

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

Mr. Cheng Faat Ting Gary *(Chairman)*
Mr. Shi You Chun
Mr. Yang Xin Min

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

(c) Nomination Committee

The Nomination Committee consists of all INEDs of the Company, chaired by Mr. Cheng Faat Ting Gary. The Company formulated written terms of reference of the Nomination Committee based on terms no less exacting than the required standard as set out in the Code on CGP.

The Nomination Committee meets at least once a year and its primary roles and functions are to assess and recommend the appointment and re-appointment of Directors to the Board, as well as overseeing the appointment, management succession planning and performance evaluation of key senior management of the Company.

The Nomination Committee met once in the Year. It has reviewed and is of the opinion that the current size and composition of the Board is adequate to facilitate effective decision-making. The Nomination Committee is also satisfied that the Board comprises directors, who, as a group, provide the core competencies necessary to guide the Group.

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

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

Attendance Record at Board Committee Meetings

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

	No. of meetings attended		
Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. Yang Xin Min	N / A	1 / 1	N / A
Mr. Cheng Faat Ting Gary	2 / 2	1 / 1	1 / 1
Mr. Guo Jing Mao	2 / 2	N / A	1 / 1
Mr. Shi You Chun	2 / 2	1 / 1	1 / 1

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct rules (the "Code of Conduct") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry with all Directors, the Company confirms that all the Directors have complied with the required standard set out in the Code of Conduct and the Model Code throughout the Year.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 34 to 35.

INTERNAL CONTROLS

The Board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure and to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud. The Board is of the view that the system of internal controls in place for the Year and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairmans of the Board, of the Audit Committee and of the Remuneration Committee are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner. Printed copies of the Annual Report 2006 and Interim Report 2007 were sent to all shareholders.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 (the "Year") are set out in the consolidated income statement on page 36.

The Board has recommended payment of a final dividend of HK2.0 cents per ordinary share for the Year.

In the event that the resolution on the proposed payment of the final dividend for ordinary share is passed at the annual general meeting to be held on 15 May 2008, such dividend will be paid on 22 May 2008 to shareholders whose names appear in the register of members of the Company on 15 May 2008.

The register of members of the Company will be closed from 13 May 2008 (Tuesday) to 15 May 2008 (Thursday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend and to attend and vote at the Company's annual general meeting to be held on 15 May 2008, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on 9 May 2008 (Friday).

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 5.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the Year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 28 to the financial statements.

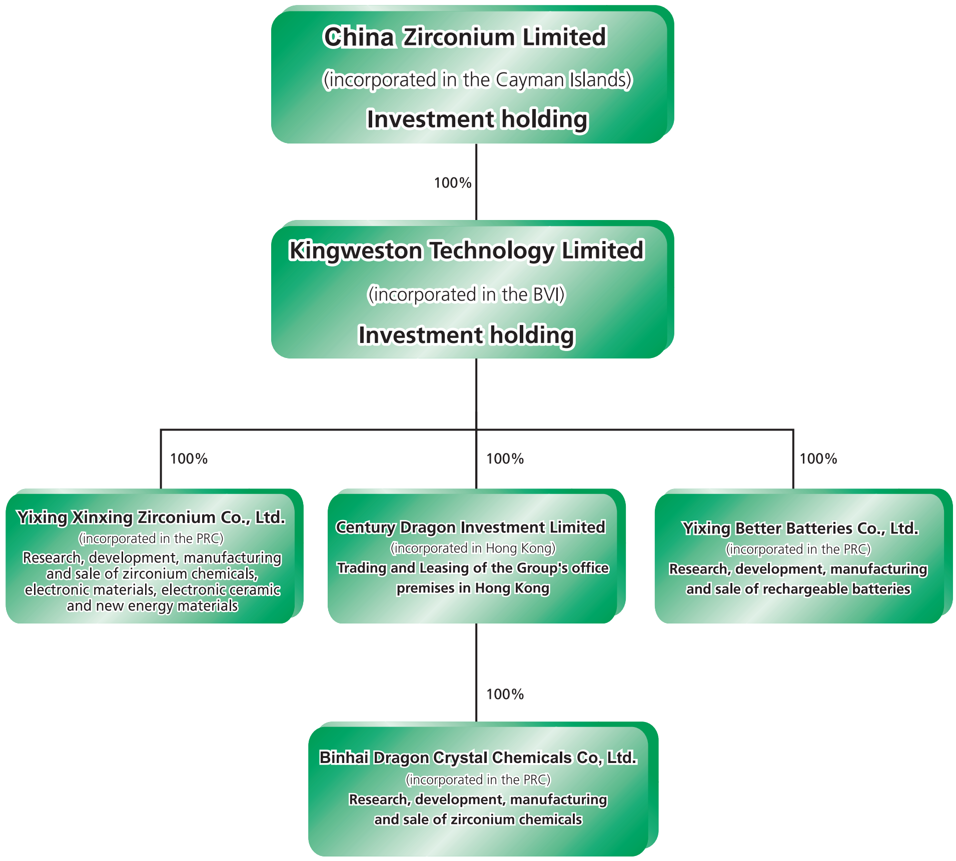
RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 40.

DISTRIBUATABLE RESERVES

Pursuant to the Companies Law of the Cayman Islands and the Company's articles of association, in addition to the retained profits of the Company, the ordinary share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2007 amounted to approximately RMB246,640,000 (2006: RMB116,938,000).

GROUP STRUCTURE



DIRECTORS

The Directors who held office during the year and as at the date of this report are shown below. Their biographies are set out on pages 17 to 18.

Executive Directors

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

Independent Non-Executive Directors

Mr. Cheng Faat Ting Gary
Mr. Guo Jing Mao
Mr. Shi You Chun

Each of the above Directors, except for Mr. Shi You Chun, has entered into a service contract with the Company for an initial term of three years. Mr. Shi You Chun has entered into a service contract with the Company for an initial term of two years. Each service contract will continue thereafter unless terminated by either party thereto giving to the other at least three months' notice in writing.

The Company has received from each of the Independent Non-Executive Directors a confirmation letter of his independence pursuant to paragraph 12B of Appendix 16 of the Listing Rules and considers each of the Independent Non-Executive Directors is independent.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2007, the interests of the Directors and the chief executive of the Company in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Nature of Interest	Number of Shares	Percentage of Total Share Capital
Yang Xin Min	Beneficial	Personal	281,514,946	39.67%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2007, so far as was known to the Directors and the chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

Name of Shareholder	Number of Shares	Percentage of Total Share Capital
Yang Xin Min	281,514,946	39.67%
CCB International (Holdings) Limited	93,0000,000	13.10%

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors had any interest, either direct or indirect, in any business, which may compete or constitute a competition with the business of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors of the Company had a material interest, either direct or indirect, in any significant contract to which the Company or its holding companies or any of its subsidiaries was a party at the Year end or during the Year.

At no time during the Year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

SHARE OPTIONS GRANTED PURSUANT TO THE SHARE OPTION SCHEME

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the "Scheme") was approved and adopted and, the Board may, at its discretion, grant options (the "Options") to Eligible Persons as defined in (ii) below. The Scheme will expire on 23 September 2012.

(i) Purpose

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

(ii) Eligible Persons

Any Director (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid).

(iii) Maximum number of shares

(a) The total number of Shares which may be issued upon exercise of all Options to be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the issued share capital of the Company as at the date of approval of the Scheme (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of counting the Scheme Mandate Limit.

(b) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed in aggregate 30% of the Shares in issue from time to time ("Overall Scheme Limit"). No Options may be granted under any schemes of the Company (or its subsidiaries) if such grant will result in the Overall Scheme Limit being exceeded.

(iv) Maximum entitlement of each Eligible Person

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

(v) Timing for exercise of Options

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

(vi) Offer acceptance period and Option price

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

(vii) Subscription price

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

For the year ended 31 December 2007, 5,500,000 (2006: Nil) Options have been granted under the Scheme and they have been fully exercised as at year end.

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

				Number of Options			
Name of Grantee	Date of Grant	Exercisable Period	Subscription Price Per Share	Outstanding as at 31 December 2006	Granted during the period	Exercised during the period	Outstanding as at 31 December 2007
Fang Guo Qiang	12 February 2007	12 February 2007 to 30 June 2007	HK$0.80	—	5,500,000	5,500,000	—

CONNECTED TRANSACTIONS

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

Trademark

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

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

Save as disclosed above, no other transactions were required to be disclosed as connected transactions pursuant to the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 20 to 25.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 14% and 50% of the Group's total turnover for the Year respectively; and the aggregate purchases from the largest and the five largest suppliers of the Group accounted for approximately 21% and 53% of the Group's total purchases for the Year, respectively.

As far as the Directors are aware, none of the Directors of the Company, their respective associates (as defined in the Listing Rules), and the existing shareholders of the Company who own more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during the Year.

RESPONSIBILITY OF DIRECTORS ON FINANCIAL STATEMENTS

The Companies Ordinance requires the Directors to prepare financial statements for each financial year. Such financial statements should give a true and fair view of the state of affairs of the Company and of the Group as at the balance sheet date of a particular year and on the profit and loss of the Company and the Group for the year then ended. In preparing the financial statements, the Directors should:

(a) select and apply consistently appropriate accounting policies, make prudent, fair and reasonable judgement and estimation;

(b) report the reasons for any seriously deviation from accounting practice; and

(c) prepare the financial statements on going concern basis, unless it is inappropriate to assume the Company and the Group could continue to operate.

The Directors are responsible for the proper keeping of accounting record in order to secure assets of the Company and the Group. The Directors are also responsible for adopting reasonable measures to prevent and check any fraudulences and irregularities.

DONATIONS

For the year ended 31 December 2007, the Group did not make any donations to charitable organisations (2006: RMB111,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the Year.

POST BALANCE SHEET DATE EVENT

Details of significant post balance sheet date event are set out in note 34 to the financial statements.

AUDITORS

KPMG was appointed as auditors of the Company on 28 December 2007 upon the resignation of RSM Nelson Wheeler.

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

By order of the Board
Huang Yue Qin
Executive Director

10 April 2008

KPMG

Independent auditor's report to the SHAREHOLDERS of
CHINA ZIRCONIUM LIMITED
(Formerly known as Asia Zirconium Limited)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Zirconium Limited (the "Company") set out on pages 36 to 96, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

10 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Turnover	3	**541,510**	446,719
Cost of sales		**(416,912)**	(333,195)
Gross profit		**124,598**	113,524
Other income	4	**1,097**	1,410
Distribution costs		**(13,194)**	(8,685)
Administrative expenses		**(20,629)**	(14,490)
Other operating expenses		**(4,314)**	(8,173)
Profit from operations		**87,558**	83,586
Net finance costs	5(a)	**(7,529)**	(6,076)
Profit before taxation	5	**80,029**	77,510
Income tax	6(a)	**(18,565)**	(19,713)
Profit for the year		**61,464**	57,797
Dividends attributable to the year	10	**13,377**	15,857
Earnings per share			
— basic (cents)	11(a)	**9.5**	11.5
— diluted (cents)	11(b)	**9.5**	N/A

The notes on pages 43 to 96 form part of these financial statements.

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	13	**265,987**	248,467
Construction in progress	14	**46,208**	2,637
Lease prepayments	15	**50,893**	52,244
Intangible assets	16	**903**	1,459
Long-term prepayments	18	**59,689**	15,051
Deferred tax assets	27(b)	**3,237**	—
Total non-current assets		**426,917**	319,858
Current assets			
Inventories	19	**64,758**	53,467
Trade and other receivables and prepayments	20	**114,876**	119,420
Amount due from a related party	32(b)	**47**	—
Lease prepayments	15	**1,351**	1,351
Cash and cash equivalents	21	**253,152**	165,718
Total current assets		**434,184**	339,956
Total assets		**861,101**	659,814
Current liabilities			
Trade and other payables	23	**48,820**	54,087
Amounts due to related parties	32(b)	**1,347**	9,278
Interest-bearing borrowings	24	**12,249**	26,694
Current taxation	27(a)	**31,921**	32,623
Total current liabilities		**94,337**	122,682
Net current assets		**339,847**	217,274
Total assets less current liabilities		**766,764**	537,132

CONSOLIDATED BALANCE SHEET

At 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
CAPITAL AND RESERVES			
Share capital	28	**73,671**	53,529
Reserves	29	**693,093**	483,603
TOTAL EQUITY		**766,764**	537,132

Approved and authorised for issue by the board of directors on 10 April 2008.

Director *Director*

The notes on pages 43 to 96 form part of these financial statements.

BALANCE SHEET

At 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Investments in subsidiaries	17	**303,257**	162,523
Current assets			
Other receivables	20	**15,987**	14,199
Cash and cash equivalents	21	**2,359**	101
		18,346	14,300
Current liabilities			
Other payables	23	**1,165**	511
Amounts due to related parties	22	**—**	4,788
Amounts due to directors	22	**127**	1,057
		1,292	6,356
Net current assets		**17,054**	7,944
NET ASSETS		**320,311**	170,467
CAPITAL AND RESERVES			
Share capital	28	**73,671**	53,529
Reserves	29	**246,640**	116,938
TOTAL EQUITY		**320,311**	170,467

Approved and authorised for issue by the board of directors on 10 April 2008.

Director *Director*

The notes on pages 43 to 96 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital	Merger reserve	Share premium	Statutory reserves	Capital reserve	Exchange reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 29(b))		*(Note 29(b))*	*(Note 29(b))*			
At 1 January 2006	53,529	(11,085)	150,173	70,545	—	(896)	233,656	495,922
Exchange difference on translation of financial statements of operations outside the People's Republic of China ("the PRC")	—	—	—	—	—	716	—	716
Net profit for the year	—	—	—	—	—	—	57,797	57,797
Appropriation to statutory reserves	—	—	—	12,485	—	—	(12,485)	—
Dividends approved during the year	—	—	(17,303)	—	—	—	—	(17,303)
At 31 December 2006	53,529	(11,085)	132,870	83,030	—	(180)	278,968	537,132
At 1 January 2007	53,529	(11,085)	132,870	83,030	—	(180)	278,968	537,132
Equity settled share-based payments	—	—	—	—	670	—	—	670
Shares issued under placement, net of issuance costs	19,608	—	163,450	—	—	—	—	183,058
Shares issued under share option scheme	534	—	4,411	—	(670)	—	—	4,275
Exchange difference on translation of financial statements of operations outside the PRC	—	—	—	—	—	(4,461)	—	(4,461)
Net profit for the year	—	—	—	—	—	—	61,464	61,464
Appropriation to statutory reserves	—	—	—	9,719	—	—	(9,719)	—
Dividends approved during the year	—	—	(15,374)	—	—	—	—	(15,374)
At 31 December 2007	73,671	(11,085)	285,357	92,749	—	(4,641)	330,713	766,764

The notes on pages 43 to 96 form part of these financial statements.

	Note	2007 RMB'000	2006 RMB'000
Operating activities			
Profit before taxation		**80,029**	77,510
Adjustments for:			
— Depreciation	5(c)	**15,227**	15,138
— Amortisation of lease prepayments	5(c)	**1,351**	1,351
— Amortisation of intangible assets	5(c)	**701**	641
— Interest expense	5(a)	**1,177**	1,202
— Interest income	5(a)	**(1,143)**	(877)
— Equity-settled share-based payments	5(c)	**670**	—
— Foreign exchange gain		**(1,349)**	—
Operating profit before changes in working capital		**96,663**	94,965
(Increase)/decrease in inventories		**(11,291)**	12,254
Decrease/(increase) in trade and other receivables and prepayments		**2,166**	(30,953)
Increase in amount due from a related party		**(47)**	—
Decrease in amounts due to related parties		**(7,931)**	—
Decrease in trade and other payables		**(4,121)**	(2,199)
Cash generated from operations		**75,439**	74,067
Income tax paid		**(22,504)**	(19,411)
Net cash generated from operating activities		**52,935**	54,656
Investing activities			
Payment for the purchase of property, plant and equipment		**(19,498)**	(3,357)
Deposits for the purchase of property, plant and equipment		**(652)**	(11,774)
Payment for intangible assets		**(145)**	—
Payment for construction in progress		**(56,820)**	—
Increase in long-term prepayments		**(44,638)**	(3,000)
Interest received		**1,143**	877
Net cash used in investing activities		**(120,610)**	(17,254)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Financing activities			
Proceeds from new bank borrowings		**60,765**	10,118
Repayment of bank borrowings		**(75,210)**	(4,233)
Proceeds from shares issued under placement, net of issuance costs	28(ii)	**183,058**	—
Proceeds from shares issued under share option scheme	28(iii)	**4,275**	—
Dividends paid to equity shareholders of the Company	10	**(15,374)**	(17,303)
Interest paid		**(1,177)**	(1,202)
Net cash generated from/(used in) financing activities		**156,337**	(12,620)
Net increase in cash and cash equivalents		**88,662**	24,782
Cash and cash equivalents at 1 January		**165,718**	140,220
Effect of foreign exchange rate changes		**(1,228)**	716
Cash and cash equivalents at 31 December	21	**253,152**	165,718

The notes on pages 43 to 96 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

China Zirconium Limited (the "Company") was incorporated in the Cayman Islands on 18 July 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's principal place of business is No.68 Hongxin Road, Xushe Town, Yixing City, Jiangsu Province, the PRC. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is principally engaged in the manufacture and trading of zirconium compounds, electronic materials and electronic ceramics, new energy materials and rechargeable batteries.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"). These are the Group's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 has been applied. The Group historically presented its consolidated financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The directors consider that IFRSs should be more widely accepted by international investors.

The directors are of the opinion that there is no material effect of the transition from the HKFRSs to IFRSs on the Group's total equity as at 1 January 2006 (the "date of transition to IFRSs") and 31 December 2006 or consolidated profit attributable to the equity shareholders of the Company or the Group's cash flows for the year ended 31 December 2006. As such, there have been no adjustments made to the opening IFRS balance sheet at the date of transition to IFRSs and the financial statements for the year ended 31 December 2006 as a result of the first-time adoption of IFRSs, and therefore, no reconciliation statements have been presented, except that certain comparatives have been reclassified to conform with the disclosures and presentation in the current year as follows:

— Other tax payables are reclassified from current tax payable to trade and other payables;

— Prepayments for costs of construction in progress are reclassified from current prepayments to long-term prepayments;

— Interest income and exchange gain/loss are grouped under net finance costs; and

— Research and development expenses are reclassified from costs of sales to other operating expenses.

In addition, as a result of adopting IFRS 7, Financial instruments: Disclosures, and the amendments to IAS 1, Presentation of financial statements: Capital disclosures, certain comparatives have been adjusted to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Statement of compliance *(continued)*

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to IFRSs.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Basis of consolidation

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

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

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

(d) Property, plant and equipment

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

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

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

— Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

—	Machinery and equipment	5 - 20 years
—	Office equipment and fixtures	5 years
—	Motor vehicles	5 years

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Construction in progress

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

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

(f) Lease prepayments

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

(g) Intangible assets

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Operating lease charges

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

(i) Impairment of assets

(i) Impairment of receivables

Current receivables that are carried at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is recognised and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(i) Impairment of receivables *(continued)*

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

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

(ii) Impairment of other assets

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

— property, plant and equipment;

— lease prepayments;

— intangible assets;

— construction in progress;

— investment in subsidiaries; and

— long-term prepayments.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(ii) Impairment of other assets *(continued)*

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Inventories

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

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

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

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

(k) Trade and other receivables

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

(l) Interest-bearing borrowings

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

(m) Trade and other payables

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Cash and cash equivalents

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

(o) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(p) Share-based payments

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income tax

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

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

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

Apart from temporary differences which arose from the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income tax *(continued)*

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

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Company or the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(i) Financial guarantees issued *(continued)*

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(r)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the company under the guarantee, and (ii) the amount of that claim on the company is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Revenue recognition *(continued)*

(ii) Interest income

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

(iii) Government grants

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

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences recognised in equity which relate to that operation outside the PRC is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, and are included in net finance costs.

(v) Earnings per share

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

(w) Dividends

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

(x) Related parties

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

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making finance and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Related parties *(continued)*

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen geographical segment information as the primary reporting format and business segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 NEW AND REVISED IFRSs EFFECTIVE FOR ACCOUNTING PERIODS ON OR AFTER 1 JANUARY 2007

The IASB has issued a number of new and revised IFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. There have been some additional disclosures in these financial statements for the years presented as a result of the adoption of the new and revised IFRSs that are effective for the year ended 31 December 2007.

As a result of the adoption of IFRS 7, Financial instruments: Disclosures, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments. These disclosures are provided throughout these financial statements, in particular in note 30.

The amendment to IAS 1, Presentation of Financial Statements, introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 29(c).

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation (note 35) that is not yet effective for the current accounting period.

3 TURNOVER

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

	2007	2006
	RMB'000	*RMB'000*
Sales of zirconium compounds	**493,170**	402,481
Sales of electronic materials and electronic ceramics	**529**	3,866
Sales of new energy materials	**30,577**	28,151
Sales of rechargeable batteries	**17,234**	12,221
	541,510	446,719

4 OTHER INCOME

	2007 *RMB'000*	2006 *RMB'000*
Other income		
Government grants	**237**	750
Others	**860**	660
	1,097	1,410

The Group was awarded government grants totalling RMB237,000 (2006: RMB750,000) in 2007 to subsidise the operations of zirconium chemicals production.

5 PROFIT BEFORE TAXATION

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

		2007 *RMB'000*	2006 *RMB'000*
(a)	Net finance costs:		
	Interest income	**(1,143)**	(877)
	Interest on bank borrowings wholly repayable within five years	**1,177**	1,202
	Net exchange loss	**7,495**	5,751
		7,529	6,076
(b)	Staff costs:		
	Salaries, wages and other benefits	**16,392**	17,341
	Contributions to defined contribution retirement scheme	**3,495**	1,345
		19,887	18,686

5 PROFIT BEFORE TAXATION *(continued)*

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

	2007 **RMB'000**	2006 *RMB'000*
(c) Other items:		
Amortisation		
— lease prepayments	**1,351**	1,351
— intangible assets	**701**	641
Depreciation	**15,227**	15,138
Research and development costs	**4,064**	11,666
Auditors' remuneration	**1,163**	502
Share-based payments	**670**	—
Operating lease charges in respect of the office premises in Hong Kong	**716**	534
Cost of inventories *(note 19)*#	**416,912**	333,195

Cost of inventories includes RMB27,530,000 (2006: RMB28,630,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007 **RMB'000**	2006 *RMB'000*
Current tax - PRC income tax		
Provision for the year	**21,802**	19,713
Deferred tax		
Origination and reversal of temporary differences *(note 27(b))*	**(3,237)**	—
	18,565	19,713

(Expressed in Renminbi unless otherwise stated)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(continued)

(a) Taxation in the consolidated income statements represent: *(continued)*

(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 does not have assessable profit subject to Hong Kong Profits Tax for the year ended 31 December 2007.

(iii) Pursuant to the income tax rules and regulations of the PRC, the provision for PRC enterprise income tax of the Group is calculated based on the following rates:

	Note	**2007**	2006
Yixing Xinxing Zirconium Company Limited ("YXZL")	(1)	24%	24%
Yixing Better Batteries Company Limited ("YBBL")	(2)	—	—
Binhai Dragon Crystal Chemicals Company Limited ("BHDC")	(3)	—	N/A

(1) Pursuant to the relevant income tax laws in the PRC, YXZL is subject to Enterprise Income Tax ("EIT") at a tax rate of 24% (2006: 24%), being the standard rate for foreign exterprises located in coastal open economic regions in the PRC, on the assessable profit for the year.

(2) No EIT provision is made for YBBL as it incurred tax losses for the year.

(3) BHDC was approved to be established on 20 August 2007 and has not commenced business operation during the year. No EIT provision is made as it has no assessable profit for the year.

(4) Subject to the approval from the local tax authorities for their tax holiday status, YBBL and BHDC will be forcibly to commence the tax holidays of "two-year exemption followed by three-year 50% reduction" on 1 January 2008 even if they are not yet turning to a profit as further discussed below.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(a) Taxation in the consolidated income statements represent: *(continued)*

(iii) *(continued)*

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which would become effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law ("the Implementation Rules").

According to the New Tax Law, effective from 1 January 2008, the standard corporate income tax rates for enterprises in the PRC will be reduced from 33% to 25%.

For YXZL currently enjoying a reduced tax rate of 24%, the tax rate will transit to the standard tax rate of 25% effective from 1 January 2008.

Any unutilised tax holidays can continue until expiry while tax holidays will be deemed to start from 1 January 2008, even if the company is not yet turning to a profit. YBBL and BHDC are currently under tax losses status or generate no assessable profit and, subject to the approval from the local tax authorities for their tax holiday status, they will be forcibly to commence the tax holidays on 1 January 2008.

The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable. The deferred tax assets/liabilities 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 or settled.

Further under the New Tax Law, from 1 January 2008, dividends out of profits earned on or after 1 January 2008 from the subsidiaries in the PRC to the Company will be subject to dividend withholding tax, while dividends appropriated from retained earnings accumulated prior to 1 January 2008, will not be subject to dividend withholding tax. The Implementation Rules provides for the dividend withholding tax to be at 10% unless reduced by treaty.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(continued)

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2007 *RMB'000*	2006 *RMB'000*
Profit before taxation	**80,029**	77,510
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**29,110**	26,592
Tax effect of non-deductible expenses	**379**	521
Tax effect of non-taxable income	**(59)**	(8)
Tax effect on tax loss not recognised	**307**	—
Deferred tax assets not recognised in prior years	**(3,237)**	—
Tax effect of tax concessions	**(7,935)**	(7,392)
Actual tax expenses	**18,565**	19,713

7 DIRECTORS' REMUNERATION

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

2007

	Fees *RMB'000*	**Salaries, allowances and other benefits** *RMB'000*	**Contributions to retirement scheme** *RMB'000*	**Total** *RMB'000*
Executive directors				
Mr Yang Xin Min	—	1,490	3	1,493
Mr Li Fu Ping	—	230	3	233
Ms Huang Yue Qin	—	440	3	443
Mr Zhou Quan	—	230	3	233
Independent non-executive directors				
Mr Shi You Chun	60	—	—	60
Mr Guo Jing Mao	60	—	—	60
Mr Cheng Faat Ting Gary	75	—	—	75
	195	2,390	12	2,597

7 DIRECTORS' REMUNERATION *(continued)*

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

2006

	Fees	Salaries, allowances and other benefits	Contributions to retirement scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr Yang Xin Min	—	1,749	6	1,755
Mr Li Fu Ping	—	194	3	197
Ms Huang Yue Qin	—	454	3	457
Mr Zhou Quan	—	212	3	215
Independent non-executive directors				
Mr Shi You Chun	60	—	—	60
Mr Guo Jing Mao	60	—	—	60
Mr Cheng Faat Ting Gary	70	—	—	70
	190	2,609	15	2,814

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

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2006: four) are also directors of the Company whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the other one (2006: one) individual are as follows:

	2007 *RMB'000*	2006 *RMB'000*
Salaries and other emoluments	**608**	587
Contributions to retirement benefit scheme	**11**	12
	619	599

The emoluments of the one (2006: one) individual with the highest emoluments are within the following band:

	2007 *Number of individuals*	2006 *Number of individuals*
Nil to $1,000,000	**1**	1

During the year ended 31 December 2007, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director waived any emoluments for the year ended 31 December 2007 (2006: Nil).

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB4,186,000 (2006: RMB1,836,000) which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2007	2006
	RMB'000	*RMB'000*
Final dividend proposed after balance sheet date of HK2.0 cents per share (2006: HK2.8 cents per share)	**13,377**	15,857

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	2007	2006
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.8 cents per sahre (2006: HK3.3 cents per share)	**15,374**	17,303

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity shareholders of the Company for the year of RMB61,464,000 (2006: RMB57,797,000) and the weighted average number of shares in issue during the year ended 31 December 2007 of 648,668,000 (2006: 504,171,000), calculated as follows:

Weighted average number of shares:

	2007 **'000**	2006 '000
Issued ordinary shares at 1 January	**504,171**	504,171
Effect of shares issued under placements on 11 January 2007 and 29 May 2007	**141,589**	—
Effect of shares issued upon exercise of share options on 22 June 2007	**2,908**	—
Weighted average number of shares at 31 December	**648,668**	504,171

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity shareholders of the Company of RMB61,464,000 and the weighted average number of shares in issue during the year after adjusting for the effect of all dilutive potential shares, calculated as follows:

Weighted average number of shares (diluted):

	2007 ***'000***
Weighted average number of shares	648,668
Effect of deemed issue of shares under the Company's share option scheme at consideration of HK$0.80 per share	525
Weighted average number of shares (diluted) at 31 December	649,193

No disclosure of diluted earnings per share for the year ended 31 December 2006 has been made as there were no potential dilutive shares outstanding during that year.

12 SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Geographical segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Geographical segment

The Group operates within one geographical location in the PRC. All segment assets, liabilities and capital expenditures are located in the PRC and therefore no geographical segments assets, liabilities and capital expenditure are presented. In presenting information on the basis of geographical segments, segment revenue and segment results are based on geographical location of customers. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Other geographical segment includes Germany, India, Italy and other countries.

	Japan		The USA		The PRC		The Netherlands		Others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**46,477**	39,405	**162,146**	117,114	**240,844**	202,188	**47,316**	52,918	**44,727**	35,094	**541,510**	446,719
Segment result	**6,216**	7,356	**36,393**	26,220	**62,957**	61,351	**8,044**	9,592	**10,988**	9,005	**124,598**	113,524
Unallocated operating income and expenses											**(37,040)**	(29,938)
Profit from operations											**87,558**	83,586
Net finance costs											**(7,529)**	(6,076)
Taxation											**(18,565)**	(19,713)
Profit after taxation											**61,464**	57,797

12 SEGMENT REPORTING *(continued)*

Business segments

The main business segments include zirconium compounds, electronic materials and electronic ceramics, new energy materials and rechargeable batteries. Unallocated assets comprise mainly corporate assets.

	Zirconium compounds		Electronic materials and electronic ceramics		New energy materials		Rechargeable batteries		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**493,170**	402,481	**529**	3,866	**30,577**	28,151	**17,234**	12,221	**541,510**	446,719
Segments assets	**397,175**	272,731	**22,636**	18,265	**42,249**	49,951	**53,826**	54,450	**515,886**	395,397
Unallocated assets									**345,215**	264,417
Total assets									**861,101**	659,814
Capital expenditure incurred during the year	**73,801**	17,395	**—**	1,277	**2**	1,450	**274**	74	**74,077**	20,196
Unallocated capital expenditure									**2,386**	261
Total capital expenditure									**76,463**	20,457

13 PROPERTY, PLANT AND EQUIPMENT

	The Group				
	Buildings *RMB'000*	**Machinery and equipment** *RMB'000*	**Office equipment and fixtures** *RMB'000*	**Motor vehicles** *RMB'000*	**Total** *RMB'000*
Cost:					
At 1 January 2006	98,210	184,087	1,439	2,878	286,614
Additions	1,112	19,199	113	—	20,424
Transfer from construction in progress *(note 14)*	300	8,159	—	—	8,459
At 31 December 2006	99,622	211,445	1,552	2,878	315,497
At 1 January 2007	99,622	211,445	1,552	2,878	315,497
Exchange adjustments	—	—	(14)	—	(14)
Additions	330	17,123	62	1,983	19,498
Transfer from construction in progress *(note 14)*	13,249	—	—	—	13,249
Disposals	—	(5,791)	—	—	(5,791)
At 31 December 2007	113,201	222,777	1,600	4,861	342,439
Accumulated depreciation:					
At 1 January 2006	14,252	35,161	1,036	1,443	51,892
Charge for the year	3,524	10,878	160	576	15,138
At 31 December 2006	17,776	46,039	1,196	2,019	67,030
At 1 January 2007	17,776	46,039	1,196	2,019	67,030
Exchange adjustments	—	—	(14)	—	(14)
Charge for the year	3,759	10,900	109	459	15,227
Written back on disposal	—	(5,791)	—	—	(5,791)
At 31 December 2007	21,535	51,148	1,291	2,478	76,452
Net book value:					
At 31 December 2007	91,666	171,629	309	2,383	265,987
At 31 December 2006	81,846	165,406	356	859	248,467

All of the Group's buildings and machinery and equipment are located in the PRC.

At 31 December 2007, the Group was still in the process of obtaining the relevant property ownership certificates of certain buildings in the PRC from the relevant government authorities, the carrying value of which amounted to approximately RMB13,341,000 (2006: Nil).

14 CONSTRUCTION IN PROGRESS

	The Group	
	2007	2006
	RMB'000	*RMB'000*
At 1 January	**2,637**	11,063
Additions	**56,820**	33
Transfer to property, plant & equipment *(note 13)*	**(13,249)**	(8,459)
At 31 December	**46,208**	2,637

Construction in progress as at 31 December 2007 comprises costs incurred on buildings under construction and plant and equipment under installation.

15 LEASE PREPAYMENTS

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Cost:		
At 1 January and 31 December	**61,945**	61,945
Accumulated amortisation:		
At 1 January	**8,350**	6,999
Charge for the year	**1,351**	1,351
At 31 December	**9,701**	8,350
Net book value:		
At 31 December	**52,244**	53,595
Current portion	**(1,351)**	(1,351)
Non-current portion	**50,893**	52,244

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

16 INTANGIBLE ASSETS

The Group

	Technical know-how *RMB'000*
Cost:	
At 1 January 2006	4,200
Additions	—
At 31 December 2006	4,200
At 1 January 2007	4,200
Additions	145
At 31 December 2007	4,345
Accumulated amortisation:	
At 1 January 2006	2,100
Charge for the year	641
At 31 December 2006	2,741
At 1 January 2007	2,741
Charge for the year	701
At 31 December 2007	3,442
Net book value:	
At 31 December 2007	903
At 31 December 2006	1,459

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

17 INVESTMENT IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	*RMB'000*
Unlisted shares, at cost	**303,257**	162,523

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Issued and fully paid up	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a subsidiary	Principal activities
Kingweston Technology Limited	British Virgin Islands ("BVI")	US$2,500,000	100%	—	Investment holding in Hong Kong
Yixing Xinxing Zirconium Company Limited*	PRC	US$13,100,000	—	100%	Research, development, manufacturing and sales of zirconium compounds, electronic materials, electronic ceramics and new energy materials
Century Dragon Investment Limited	Hong Kong ("HK")	HK$15,000,000	—	100%	Leasing of the Group's office premises in Hong Kong, provision of administrative services and general trading in Hong Kong
Yixing Better Batteries Co., Ltd.*	PRC	US$4,200,000	—	100%	Research, development manufacturing and sales of rechargeable batteries
Binhai Dragon Crystal Chemicals Company Limited*	PRC	US$6,994,784	—	100%	Research, development, manufacturing and sales of zirconium compounds

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

18 LONG-TERM PREPAYMENTS

As at 31 December 2007, the Group had made prepayments of RMB59,689,000 (2006: RMB15,051,000) for the acquisition of land use rights in the PRC and machinery and equipment for the manufacturing plants under development. The corresponding certificates of land use rights are under application.

19 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Raw materials	**39,642**	33,494
Work in progress	**8,407**	4,744
Finished goods	**16,709**	15,229
	64,758	53,467

(b) An analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Cost of inventories sold	**416,912**	333,195

20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**78,001**	53,816	**—**	—
Less: Allowance for doubtful debts *(note 20(b))*	**(1,730)**	(1,730)	**—**	—
	76,271	52,086	**—**	—
Advance payments to suppliers	**27,719**	52,532	**—**	—
Deposits and prepayments	**6,512**	5,625	**—**	—
Dividend receivable	**—**	—	**13,195**	14,053
Other receivables	**4,374**	9,177	**2,792**	146
	114,876	119,420	**15,987**	14,199

(a) Ageing analysis

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

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Current	**47,361**	34,350
Less than 3 months past due	**27,412**	16,631
More than 3 months but less than 1 year past due	**349**	583
Over 1 year past due	**1,149**	522
Amounts past due	**28,910**	17,736
	76,271	52,086

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

20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

(b) Impairment of trade receivables

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

At 31 December 2007, the Group's trade receivables of RMB2,270,000 (2006: RMB2,313,000) 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 RMB1,730,000 (2006: RMB1,730,000) 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:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Neither past due nor impaired	**47,361**	34,350
Less than 1 month past due	**25,399**	15,196
1 to 3 months past due	**2,013**	1,435
More than 3 months past due	**958**	522
	28,370	17,153
	75,731	51,503

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.

21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits with banks	**24,459**	9,733	**1,509**	—
Cash at bank and in hand	**228,693**	155,985	**850**	101
Cash and cash equivalents in the consolidated cash flow statement	**253,152**	165,718	**2,359**	101

As at 31 December 2007, cash and cash equivalents of RMB224,003,000 (2006: RMB146,606,000) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

22 AMOUNTS DUE FROM/(TO) RELATED PARTIES

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

23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**10,438**	17,901	**—**	—
Receipts in advance from customers	**2,873**	3,272	**—**	—
Other payables and accruals	**35,509**	32,914	**1,165**	511
	48,820	54,087	**1,165**	511

23 TRADE AND OTHER PAYABLES *(continued)*

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 balance sheet date.

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Within 3 months	**8,176**	12,653
3 months to 6 months	**596**	1,080
6 months to 1 year	**320**	871
Over 1 year	**1,346**	3,297
	10,438	17,901

24 INTEREST-BEARING BORROWINGS

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Bank loans	**—**	10,118
Trust receipt loans	**12,249**	16,576
	12,249	26,694

The bank loans as at 31 December 2006 carried interest at LIBOR plus 2%. The trust receipt loans as at 31 December 2007 bear interest at LIBOR plus 2% (2006: LIBOR plus 2%) per annum. The Group's borrowings are repayable within one year.

At 31 December 2007, the banking facilities of a Company's subsidiary are guaranteed by the Company. The directors do not consider it is probable that a claim will be made against the Company under the guarantee at the balance sheet date. The maximum liability of the Company at the balance sheet date under the guarantee issued amounted to RMB12,249,000 (2006: RMB26,694,000). The Company has not recognised any deferred income in respect of the guarantee as the fair value of such guarantee cannot be reliably measured and transaction price was nil.

25 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement scheme

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

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

26 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the share option scheme (the "Scheme") was approved and adopted and, the board of directors may, at its discretion, grant options to any director (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid). The Scheme will expire on 23 September 2012.

On 12 February 2007 ("the grant date"), the Company granted options to a third party consultant under the Scheme which are exercisable up to 31 March 2007. On 28 March 2007 ("the date of modification"), the Company revised the contractual life of the options by extending the contractual expiry date of the outstanding options to 30 June 2007. The fair value determined at the grant date was HK$343,000 while the fair value of the modified share options at the date of modification is HK$690,000. Since the options vest immediately and the modification has increased the fair value of the options by HK$347,000 determined at the date of modification, the Company has recognised the incremental value of the options as an expense and a corresponding increase in reserve on the date of modification. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

26 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of modified options
Options granted to a third party consultant:			
– on 12 February 2007	5,500,000	Immediate	Originally expired on 31 March 2007 but subsequently extended to 30 June 2007

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

	2007	
	Weighted average exercise price	Number of options *'000*
Outstanding at the beginning of the year	HK$0.80	—
Granted during the year	HK$0.80	5,500
Exercised during the year	HK$0.80	(5,500)
Outstanding at the end of the year	HK$0.80	—
Exercisable at the end of the year	HK$0.80	—

The weighted average share price at the date of exercise for shares options exercised during the year was HK$0.80 (2006: not applicable).

No options was granted or outstanding during the year ended 31 December 2006. No option was outstanding as at 31 December 2007 as the share options were granted and exercised during the year.

(Expressed in Renminbi unless otherwise stated)

26 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

(c) Fair value of share options and assumptions

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

	Date of grant (12 February 2007)	Date of modification (28 March 2007)
Fair value of share options and assumptions		
Fair value at measurement date	HK$0.06	HK$0.13
Weighted average share price	HK$0.80	HK$0.86
Weighted average exercise price	HK$0.80	HK$0.80
Expected volatility	53%	53%
Option life	1.5 months	4.5 months
Expected dividends	2.69%	2.69%
Risk-free interest rate	3.78%	3.55%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate. The measurement date of the share options under the original term being the grant date of the option. The fair value of the options was remeasured on 28 March 2007 upon modification of the term of the options.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	2007	2006
	RMB'000	*RMB'000*
Provision for PRC income tax	**31,921**	32,623

(b) Deferred tax assets recognised:

The nature of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Provisions	**Future benefit of tax losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax arising from:			
At 1 January and 31 December 2006	—	—	—
At 1 January 2007	—	—	—
Credited to profit or loss *(note 6(a))*	1,981	1,256	3,237
At 31 December 2007	1,981	1,256	3,237

The Group has recognised deferred tax assets as at 31 December 2007 in respect of cumulative tax losses of RMB5,026,000 (2006: Nil) arising from a subsidiary in the PRC as the directors are of the opinion that future taxable profits against which the losses can be utilised will be available. The tax losses of that subsidiary will expire in five years.

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets as at 31 December 2007 in respect of cumulative tax losses of RMB8,463,000 (2006: RMB7,328,000) arising from a subsidiary in Hong Kong as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

28 SHARE CAPITAL

(i) Authorised and issued share capital

	Nominal value of ordinary shares	
	2007	2006
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000

	Note	No. of shares	Nominal value of ordinary shares *HK$'000*	*RMB'000*
Issued and fully paid:				
1 January and 31 December 2006		504,170,946	50,417	53,529
1 January 2007		504,170,946	50,417	53,529
Issue of shares under placement:				
- on 11 January 2007	(ii)	60,000,000	6,000	5,982
- on 29 May 2007	(ii)	140,000,000	14,000	13,625
Shares issued under share option scheme	(iii)	5,500,000	550	535
At 31 December 2007		709,670,946	70,967	73,671

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Issue of shares under placement

On 11 January 2007 and 29 May 2007, additional 60,000,000 shares and 140,000,000 shares of HK$0.10 each were allotted and issued for subscription by Mr Yang Xin Min ("Mr Yang"), a substantial shareholder of the Company, at prices of HK$0.74 and HK$1.08 per share respectively, pursuant to the placing and subscriptions agreement signed between Mr Yang, the Company and a placing agent.

28 SHARE CAPITAL *(continued)*

(iii) Shares issued under share option scheme

On 22 June 2007, options were exercised to subscribe for 5,500,000 shares in the Company at a consideration of HK$4,400,000 (2006: Nil) of which HK$550,000 (2006: Nil) was credited to share capital and the balance of HK$3,850,000 was credited to share premium account. HK$690,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(p), upon exercise of the share options.

29 RESERVES

(a) The Company

	Share premium *(note (b))* *RMB'000*	Capital reserve *(note (b))* *RMB'000*	Exchange reserve *(note (b))* *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2006	150,173	—	(3,388)	(5,484)	141,301
Exchange differences on translation of financial statements of the Company	—	—	(5,224)	—	(5,224)
Loss for the year *(note 9)*	—	—	—	(1,836)	(1,836)
Dividend paid	(17,303)	—	—	—	(17,303)
At 31 December 2006	132,870	—	(8,612)	(7,320)	116,938
At 1 January 2007	132,870	—	(8,612)	(7,320)	116,938
Equity settled share-based payment	—	670	—	—	670
Issue of shares under placement, net of issurance costs	163,450	—	—	—	163,450
Issue of shares under share option scheme	4,411	(670)	—	—	3,741
Exchange differences on translation of financial statements of the Company	—	—	(18,599)	—	(18,599)
Loss for the year *(note 9)*	—	—	—	(4,186)	(4,186)
Dividend paid	(15,374)	—	—	—	(15,374)
At 31 December 2007	285,357	—	(27,211)	(11,506)	246,640

29 RESERVES *(continued)*

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

(i) Share premium

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

(ii) Exchange reserve

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

(iii) Merger reserve

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

(iv) Capital reserve

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

(v) Statutory reserves

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

(vi) Distributable reserves

The aggregate amount of distributable reserves of the Company at 31 December 2007 was RMB246,040,000 (2006: RMB116,938,000).

29 RESERVES *(continued)*

(c) Capital management

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

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

Consistent with the industry practice, the Company's capital structure is monitored on the basis of a debt-to-capital ratio. For this purpose, debt is defined as total debt (which includes interest-bearing borrowings, trade and other payables and amounts due to related parties). Total capital is referred as shareholders' equity in the consolidated balance sheet.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain a net cash position, to maintain sufficient capital to cover any net debt position of the Group. In order to achieve a net cash position, the Group may adjust the amount of dividends paid to shareholders or issue new shares.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in current and prior years.

30 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, currency risks and commodity price risk arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group normally grants a credit period of 60 days to local customers in the PRC and 30 to 90 days to overseas customers. Debtors with past due balances are requested to settle all outstanding balances before any further credit is granted.

At the balance sheet date, the Group has a certain concentration of credit risk as 20% (2006:21%) and 60% (2006: 59%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2007 respectively. The Group does not hold any colleteral over these balances.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets. The Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

(b) Liquidity risk

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

30 FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

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

The Group

	2007			2006		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	12,249	12,303	12,303	26,694	26,881	26,881
Trade and other payables	48,820	48,820	48,820	54,087	54,087	54,087
Amounts due to related parties	1,347	1,347	1,347	9,278	9,278	9,278
	62,416	62,470	62,470	90,059	90,246	90,246

The Company

	2007			2006		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	1,165	1,165	1,165	511	511	511
Amounts due to related parties	—	—	—	4,788	4,788	4,788
Amounts due to directors and shareholders	127	127	127	1,057	1,057	1,057
	1,292	1,292	1,292	6,356	6,356	6,356

30 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk

(i) Interest rate profile

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

The Group

	2007		2006	
	Effective interest rate	***RMB'000***	Effective interest rate	*RMB'000*
Interest-bearing borrowings	**6.04%**	**12,249**	5.06%	26,694
Cash and cash equivalents	**0.55%**	**253,152**	0.57%	165,718

The Company

	2007		2006	
	Effective interest rate	***RMB'000***	Effective interest rate	*RMB'000*
Cash and cash equivalents	**1.03%**	**2,359**	1.63%	101

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB2,409,000 (2006: RMB1,390,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

30 FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through bank deposits and sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk are primarily United States dollars.

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group		The Company	
	2007	2006	**2007**	2006
	USD'000	*USD'000*	***USD'000***	*USD'000*
Cash and cash equivalents	**3,044**	2,406	**56**	—
Trade and other receivables	**7,618**	4,526	**200**	—
Trade and other payables	**(108)**	(980)	**—**	—
Overall net exposure	**10,554**	5,952	**256**	—

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes bank deposits where the denomination of the balances is in a currency other than the functional currencies.

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax Increase/ (decrease)** ***$'000***	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax Increase/ (decrease) *$'000*
United States dollars	**5%**	**3,840**	5%	2,300
	(5)%	**(3,840)**	(5)%	(2,300)

30 FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis *(continued)*

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group entities' exposure to currency risk for both financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(e) Commodity price risk

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

(f) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2007.

31 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2007 not provided for in the financial statements are as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Contracted for	**37,526**	32,001
Authorised but not contracted for	**111,128**	—
	148,654	32,001

31 COMMITMENTS *(continued)*

(b) At 31 December 2007, the Group had a commitment of US$1,530,000 (2006: NIl) equivalent to RMB11,176,000 (2006: Nil) representing capital contribution for setting up a joint venture pursuant to the agreement entered into between the Company and PT. Indra Putra Mega on 18 September 2007 (see Note 34(a)).

(c) Operating leases

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Within 1 year	**637**	793
After 1 year but within 5 years	**371**	8,435
	1,008	9,228

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

32 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Recurring transactions

		2007	2006
	Note	***RMB'000***	*RMB'000*
Water supply from a related party	(i)	2,053	1,955

Notes:

(i) YXZL purchased water for manufacturing purpose from Yixing City Xushe Water Supply Plant ("the Water Plant"), a collectively-owned enterprise in Xushe Town of Yixing City. The Water Plant is related to the Group to the extent that Ms Bao Xi Mei, being the spouse of a director of the Group, is the legal representative of the Water Plant.

(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.

32 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

	Note	**2007** **RMB'000**	2006 *RMB'000*
Amounts due from a related party	(i) and (iii)	**47**	—
Amounts due to related parties:			
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (ii)	**(1,138)**	(1,138)
— Directors of the Company	(i)	**(209)**	(3,386)
— A related party	(i) and (iii)	**—**	(4,754)
		(1,347)	(9,278)

Notes:

(i) The balances at 31 December 2006 and 2007 are unsecured, non-interest bearing and repayable on demand.

(ii) The parties are 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 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 as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2007 **RMB'000**	2006 *RMB'000*
Short-term employee benefits	**3,216**	3,413

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

33 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the consolidated financial statements. The principal accounting policies are set forth in note 1. In addition to note 26 which contains information about assumptions relating to fair value of share options granted, the Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Depreciation and amortisation

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

(b) Impairments of long-term assets

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

33 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(c) Allowance for impairment of doubtful debts

Allowance for impairment of doubtful debts is assessed and provided based on the Group's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the allowance for impairment of doubtful debtors would affect profit or loss in future years.

(d) Write-down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are made with reference to analysis of aged inventories, projections of expected future salability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual salability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Recognition of deferred tax assets

Deferred tax assets arise from deductible temporary differences and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available to allow the related tax benefit to be utilised which involves considerable level of estimation and judgement exercised by management.

34 NON-ADJUSTING POST-BALANCE SHEET EVENTS

(a) Pursuant to the joint venture agreement entered into between the Company and PT. Indra Putra Mega on 18 September 2007, P.T. Asia Prima Resources was established in Indonesia on 2 January 2008 with issued capital of 3,000 shares at US$1,000 each, which was 51% and 49% owned by the Company and PT. Indra Putra Mega, respectively. P.T. Asia Prima Resources is engaged in the separation, processing and refining of zircon, contracting and management of mining concession and the sale of zircon products.

(b) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 10.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2007 and which have not been adopted in these financial statements.

The following developments relate to matters that may be relevant to the Group's operations and consolidated financial statements:

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 12).

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

Management of the Group has not completed its review of the possible impact on the Group of the above standards and interpretations. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

NOTICE IS HEREBY GIVEN that an annual general meeting (the "Annual General Meeting") of the Company will be held at Suite 2611, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on Thursday, 15 May 2008 at 3:00 p.m. for the following purposes:

1. To receive and adopt the audited financial statements of the Company and the reports of the directors and the auditors for the year ended 31 December 2007.

2. To declare a final dividend.

3. (a) To re-elect Mr. Yang Xin Min as a director of the Company.

   (b) To re-elect Mr. Li Fu Ping as a director of the Company.

   (c) To re-elect Mr. Cheng Faat Ting Gary as a director of the Company.

   (d) To authorise the board of directors to fix the directors' remuneration.

4. To re-appoint auditors and to authorise the board of directors to fix their remuneration.

5. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions;

   A. "THAT,

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

   (ii) the approval in sub-paragraph (i) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

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

(a) a Rights Issue (as defined below);

(b) any shares issued pursuant to the exercise of rights of subscription or conversion under the terms of any warrants or any debentures, bond warrants, notes issued by the Company or any securities which are convertible into shares of the Company;

(c) any share options granted or exercised pursuant to any option scheme or, any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and / or employees of the Company and / or any of its subsidiaries of shares or rights to acquire shares of the Company; and

(d) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company; and

(iv) for the purposes of this Resolution:

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

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or

(c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors; and

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

B. "THAT,

(i) subject to sub-paragraph (ii) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to repurchase its shares in the capital of the Company, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in sub-paragraph (i) of this Resolution, shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this Resolution and the said approval shall be limited accordingly; and

(iii) for the purposes of this Resolution:

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

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or

(c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors."

C. "**THAT,** the general mandate granted to the Directors to issue and dispose of additional shares pursuant to Ordinary Resolution No. 5A set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No. 5B set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the said Resolution."

6. To deal with other ordinary businesses of the Company.

By Order of the Board
Li Mei Kuen
Company Secretary

Hong Kong, 23 April 2008

Principal Place of Business in Hong Kong:
Suite 2611
Shell Tower, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Notes:

1. The register of members of the Company will be closed from 13 May 2008 (Tuesday) to 15 May 2008 (Thursday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and to attend the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 9 May 2008 (Friday).

2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

3. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the Company's branch share registrar in Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.

4. An explanatory statement containing further information on the above Resolution 5B will be despatched to the shareholders together with 2007 Annual Report.