CHINA ZIRCONIUM LIMITED
中國鋯業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(HKEX — Stock Code: 0395)
(TSX — Trading Symbol: CZL)

中期業績報告 INTERIM REPORT 2008

* For identification purposes only

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
Mr. Andrew Leinwand
Mr. Carl F. Steiss
Mr. Shi You Chun

Audit Committee
Mr. Cheng Faat Ting Gary (Chairman)
Mr. Andrew Leinwand
Mr. Shi You Chun

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

Nomination Committee
Mr. Cheng Faat Ting Gary (Chairman)
Mr. Andrew Leinwand
Mr. Shi You Chun

Auditors
KPMG

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

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

Qualified Accountant and Company Secretary
Ms. Li Mei Kuen

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Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
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Hong Kong

Stock Name
China Zirconium

Stock Code/Trading Symbol
HKEX: 0395
TSX: CZL

The Board of Directors (the "Board") of China Zirconium Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008 together with the comparative figures. The condensed consolidated interim financial statements (the "Interim Financial Statements") have not been audited, but have been reviewed by the Company's Audit Committee.

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

		Unaudited		Unaudited	
		Six months ended 30 June		Three months ended 30 June	
		2008	2007	**2008**	2007
	Notes	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	2	**292,239**	274,954	**162,102**	145,563
Cost of sales		**(216,196)**	(207,272)	**(119,122)**	(109,838)
Gross profit		**76,043**	67,682	**42,980**	35,725
Other income		**761**	725	**—**	—
Distribution costs		**(7,387)**	(6,596)	**(4,160)**	(3,260)
Administrative expenses		**(8,868)**	(9,036)	**(4,700)**	(4,837)
Other operating expenses		**(1,028)**	(1,129)	**(42)**	—
Profit from operations		**59,521**	51,646	**34,078**	27,628
Net finance costs	3(a)	**(6,453)**	(1,706)	**(4,303)**	(554)
Profit before taxation	3	**53,068**	49,940	**29,775**	27,074
Income tax	4	**(14,222)**	(12,787)	**(7,783)**	(10,026)
Profit attributable to shareholders		**38,846**	37,153	**21,992**	17,048
Dividends	5	**—**	—	**—**	—
Basic earnings per share (RMB)	6	**0.55**	0.63	**0.31**	0.27
Diluted earnings per share (RMB)	6	**N/A**	0.63	**N/A**	0.27

Condensed Consolidated Balance Sheet

At 30 June 2008

	Notes	**Unaudited 30 June 2008 RMB'000**	Audited 31 December 2007 RMB'000
Non-current assets			
Property, plant and equipment	8	**314,480**	265,987
Construction in progress		**38,031**	46,208
Lease prepayments		**50,214**	50,893
Intangible assets		**538**	903
Long-term prepayments		**46,257**	59,689
Deferred tax assets		**3,029**	3,237
		452,549	426,917
Current assets			
Inventories		**21,494**	64,758
Trade and other receivables and prepayments	9	**150,148**	114,876
Amount due from a related party	15(b)	**63**	47
Lease prepayments		**1,351**	1,351
Cash and cash equivalents	10	**265,894**	253,152
		438,950	434,184
Total assets		**891,499**	861,101

Condensed Consolidated Balance Sheet

At 30 June 2008

	Notes	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Current liabilities			
Trade and other payables	11	**62,786**	48,820
Amounts due to related parties	15(b)	**7,138**	1,347
Interest-bearing borrowings		**10,649**	12,249
Current taxation		**19,290**	31,921
		99,863	94,337
Net current assets		**339,087**	339,847
Total assets less current liabilities		**791,636**	766,764
Capital and reserves			
Share capital	13	**73,671**	73,671
Retained profits		**369,559**	330,713
Reserves		**348,406**	362,380
TOTAL EQUITY		**791,636**	766,764

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Net cash generated from/(used in) operating activities	**76,780**	(3,131)
Net cash used in investing activities	**(48,464)**	(12,845)
Net cash (used in)/generated from financing activities	**(14,977)**	178,479
Effects of exchange rate changes	**(597)**	(7,487)
Net increase in cash and cash equivalents	**12,742**	155,016
Cash and cash equivalents at 1 January	**253,152**	165,718
Cash and cash equivalents at 30 June	**265,894**	320,734

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Unaudited Six months ended 30 June 2008						
	Share Capital	**Merger Reserve**	**Share Premium**	**Statutory Reserves**	**Exchange Reserve**	**Retained Profits**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
At 1 January 2008	**73,671**	**(11,085)**	**285,357**	**92,749**	**(4,641)**	**330,713**	**766,764**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**38,846**	**38,846**
2007 final dividend	**—**	**—**	**(13,377)**	**—**	**—**	**—**	**(13,377)**
Exchange differences	**—**	**—**	**—**	**—**	**(597)**	**—**	**(597)**
At 30 June 2008	**73,671**	**(11,085)**	**271,980**	**92,749**	**(5,238)**	**369,559**	**791,636**

	Unaudited Six months ended 30 June 2007						
	Share Capital	**Merger Reserve**	**Share Premium**	**Statutory Reserves**	**Exchange Reserve**	**Retained Profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	53,529	(11,085)	132,870	83,030	(180)	278,968	537,132
Placing of new shares during the period	20,181	—	170,984	—	—	—	191,165
Shares issued upon exercise of share options	561	—	3,929	—	—	—	4,490
Profit for the period	—	—	—	—	—	37,153	37,153
2006 final dividend	—	—	(15,857)	—	—	—	(15,857)
Exchange differences	—	—	—	—	(7,487)	—	(7,487)
At 30 June 2007	74,271	(11,085)	291,926	83,030	(7,667)	316,121	746,596

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise stated)

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

1 Basis of Preparation

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. This interim financial report comprises the Company and its subsidiaries (together referred to as the "Group") and has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting", promulgated by the International Accounting Standards Board ("IASB").

The interim financial report does not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

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

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

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. These new and revised IFRSs have no significant impact on the results or financial position of the Group for current and prior accounting periods.

2 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 period is as follows:

	Unaudited Six months ended 30 June **2008** ***RMB'000***	 2007 *RMB'000*
Sales of zirconium compounds	**269,789**	255,064
Sales of new energy materials	**16,148**	12,885
Sales of rechargeable batteries	**6,222**	6,897
Sales of electronic materials and electronic ceramics	**80**	108
	292,239	274,954

3 Profit before Taxation

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

		Unaudited Six months ended 30 June 2008 RMB'000	2007 RMB'000
(a)	Net finance costs:		
	Interest income	**(105)**	(489)
	Interest on bank borrowings wholly repayable within five years	**146**	627
	Net exchange loss	**6,412**	1,568
		6,453	1,706
(b)	Staff costs:		
	Salaries, wages and other benefits	**8,604**	9,118
	Contributions to defined contribution retirement scheme	**358**	368
		8,962	9,486
(c)	Other items:		
	Amortisation		
	— lease prepayments	**678**	600
	— intangible assets	**365**	300
	Depreciation	**8,148**	7,441
	Research and development costs	**737**	879
	Share-based payments	**—**	670
	Operating lease charges in respect of the office premises in Hong Kong	**304**	328
	Cost of inventories	**216,196**	207,272

4 Income Tax

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Current tax — the People's Republic of China (the "PRC") income tax		
Provision for the period	**14,014**	15,776
Deferred tax		
Origination and reversal of temporary differences	**208**	(2,989)
	14,222	12,787

(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 Company's subsidiary domiciled in Hong Kong incurred losses for the purposes of Hong Kong Profits Tax for the six months ended 30 June 2008.

(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:

		Six months ended 30 June	
		2008	2007
	Notes	**%**	%
Yixing Xinxing Zirconium Company Limited ("YXZL")	(1)	**25%**	24%
Yixing Better Batteries Company Limited ("YBBL")	(2)	**—**	—
Binhai Dragon Crystal Chemicals Company Limited ("BHDC")	(3)	**—**	N/A

Notes:

(1) Pursuant to the relevant income tax laws in the PRC, YXZL is subject to Enterprise Income Tax ("EIT") at a tax rate of 25% (six months ended 30 June 2007: 24%) on the assessable profit for the period.

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

(3) BHDC was approved to be established on 20 August 2007. No EIT provision is made as it has no assessable profit for the six months ended 30 June 2008.

(4) Being foreign investment enterprises, YBBL and BHDC are eligible for the tax holidays of "two-year exemption followed by three-year 50% reduction" (the "tax holidays"). Subject to the approval from the local tax authorities for their tax holiday status, YBBL and BHDC are required to commence the tax holidays on 1 January 2008 regardless of profitability as further discussed below.

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 became 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 rate for enterprises in the PRC is reduced from 33% to 25%.

Prior to 1 January 2008, YXZL was subject to EIT at a rate of 24%, being the then standard rate for foreign enterprises located in coastal open economic regions in the PRC. According to the New Tax Law, the tax rate applicable to YXZL has changed to the standard tax rate of 25% effective from 1 January 2008 (2007: 24%).

Any unutilised tax holidays can continue until expiry while tax holidays are deemed to start from 1 January 2008, even if the company concerned 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 would be forcibly to commence the tax holidays on 1 January 2008.

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, 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. The Implementation Rules provides for the dividend withholding tax to be at 10% unless reduced by treaty.

5 Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

6 Earnings per Share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the profit attributable to equity shareholders of the Company for the period of RMB38,846,000 (six months ended 30 June 2007: RMB37,153,000) and the number of shares in issue throughout the period of 70,967,094 (30 June 2007: weighted average number of shares in issue of 58,731,735).

(b) Diluted earnings per share

No disclosure of diluted earnings per share for the six months ended 30 June 2008 has been made as there were no potential dilutive ordinary shares outstanding during the period. The calculation of diluted earnings per share for the six months ended 30 June 2007 is based on the profit attributable to equity shareholders of the Company for the period of RMB37,153,000 and the weighted average number of ordinary shares in issue during the period of 58,844,273 after adjusting for the effect of deemed issue of shares under the Company's share options scheme.

The number of shares in issue that was used in the calculation of earnings per share for the current and prior periods has been adjusted to reflect the effect of the 10 for 1 share consolidation which became effective on 30 June 2008 (see note 13).

7 Segment Reporting

Geographical segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. Revenue from external customers represents the sales value of goods sold less returns, discounts, and value added taxes and other sales taxes. 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 segments include Germany, India, Italy and other countries.

	Japan		The USA		The PRC		The Netherlands		Others		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
	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	**17,333**	22,137	**91,122**	87,622	**114,642**	114,781	**23,647**	22,406	**45,495**	28,008	**292,239**	274,954
Segment result	**3,099**	3,504	**27,904**	21,176	**26,179**	29,167	**6,580**	3,717	**12,281**	10,118	**76,043**	67,682
Unallocated operating income and expenses											**(16,522)**	(16,036)
Profit from operations											**59,521**	51,646
Net finance costs											**(6,453)**	(1,706)
Profit before taxation											**53,068**	49,940
Income tax											**(14,222)**	(12,787)
Profit after taxation											**38,846**	37,153

8 Property, Plant and Equipment

During the six months ended 30 June 2008, the Group acquired items of plant and machinery with a cost of RMB48,464,000 (six months ended 30 June 2007: RMB12,845,000). There were no items of plant and machinery disposed of during the six months ended 30 June 2007 and 2008.

At 30 June 2008, 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 (31 December 2007: RMB13,341,000).

9 Trade and Other Receivables and Prepayments

	30 June 2008 (unaudited) ***RMB'000***	31 December 2007 (audited) *RMB'000*
Trade receivables	**103,968**	78,001
Less: Allowance for doubtful debts	**(1,730)**	(1,730)
	102,238	76,271
Advance payments to suppliers	**36,262**	27,719
Deposits, prepayments and other receivables	**11,648**	10,886
	150,148	114,876

(a) Ageing analysis

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

	30 June 2008 (unaudited) ***RMB'000***	31 December 2007 (audited) *RMB'000*
Current	**74,678**	47,361
Less than 1 month past due	**23,292**	25,399
1 to 3 months past due	**332**	2,013
More than 3 months past due	**3,936**	1,498
Amounts past due	**27,560**	28,910
	102,238	76,271

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

(b) Impairment of trade receivables

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

At 30 June 2008, RMB2,270,000 (31 December 2007: RMB2,270,000) of the Group's trade receivables 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 (31 December 2007: 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:

	30 June 2008 (unaudited) ***RMB'000***	31 December 2007 (audited) *RMB'000*
Neither past due nor impaired	**74,678**	47,361
Less than 1 month past due	**23,292**	25,399
1 to 3 months past due	**332**	2,013
More than 3 months past due	**3,396**	958
	27,020	28,370
	101,698	75,731

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.

10 Cash and Cash Equivalents

	30 June 2008 (unaudited) ***RMB'000***	31 December 2007 (audited) *RMB'000*
Deposits with banks	**14,563**	24,459
Cash at bank and in hand	**251,331**	228,693
	265,894	253,152

11 Trade and Other Payables

	30 June 2008 (unaudited) *RMB'000*	31 December 2007 (audited) *RMB'000*
Trade payables	**12,438**	10,438
Receipts in advance from customers	**3,543**	2,873
Other payables and accruals	**46,805**	35,509
	62,786	48,820

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.

	30 June 2008 (unaudited) *RMB'000*	31 December 2007 (audited) *RMB'000*
Within 3 months	**9,611**	8,176
3 months to 6 months	**1,142**	596
6 months to 1 year	**1,060**	320
Over 1 year	**625**	1,346
	12,438	10,438

12 Equity-Settled Share-Based Transactions

On 12 February 2007 ("the grant date"), the Company granted options to a third party consultant under the Company's share option 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 of the modified share options at the date of modification is HK$690,000. Since the options vest immediately, the Company recognised the fair value of the options at the date of modification 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. All the Options had been fully exercised in the six months ended 30 June 2007.

No share options were granted during the six months ended 30 June 2008.

13 Share Capital

Authorised and issued share capital

On 27 June 2008, a special meeting of shareholders of the Company was held during which the shareholders approved the Offering and the consolidation of the Shares on a 10 for 1 basis ("Share Consolidation"). The Share Consolidation became effective on 30 June 2008.

After the Share Consolidation, the Company has authorised capital of 100,000,000 ordinary shares at HK$1.00 each. As at 30 June 2008, 70,967,094 shares (31 December 2007: 709,670,946 shares, before the Share Consolidation become effective) were issued and fully paid.

14 Capital Commitments Outstanding not Provided for in the Interim Financial Report

	30 June 2008 (unaudited) *RMB'000*	31 December 2007 (audited) *RMB'000*
Contracted for	**20,296**	37,526
Authorised but not contracted for	**99,840**	111,128
	120,136	148,654

In addition, at 30 June 2008, the Group had a commitment of US$765,000 (31 December 2007: US$1,530,000) equivalent to approximately RMB5,969,000 (31 December 2007: RMB11,176,000) 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.

15 Material Related Party Transactions

(a) Recurring transactions

		Unaudited Six months ended 30 June	
	Notes	**2008** *RMB'000*	2007 *RMB'000*
Water supply from a related party	(i)	**1,003**	1,608

Notes:

(i) Yixing Zirconium 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 Yixing Zirconium and a related company whereas the related company has agreed to grant exclusive rights to Yixing Zirconium for the use of the "Long Jing" trademarks in specified areas at nil consideration.

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

	Notes	30 June 2008 (unaudited) RMB'000	31 December 2007 (audited) RMB'000
Amount due from a related party	(i) and (iii)	**63**	47
Amounts due to related parties:			
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (ii)	**(1,138)**	(1,138)
— Directors of the Company	(i)	**(6,000)**	(209)
		(7,138)	(1,347)

Notes:

(i) *The balances at 30 June 2008 and 31 December 2007 are unsecured, non-interest bearing and repayable on demand.*

(ii) *The party is related to the extent that Mr. Yang Xin Min, a major shareholder and director of the Company, is also the sole owner of the related company.*

(iii) *The party is related to the extent that Mr. Yang Xin Min, is the father of the related party.*

(c) Key management personnel remuneration

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

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Short-term employee benefits	**1,461**	1,609

16 Non-Adjusting Post-Balance Sheet Events

On 1 August 2008, China Zirconium Limited filed the prospectus relating to the distribution to the public (the "Offering") of fully paid shares. Pursuant to the agency agreement dated 1 August 2008 among GMP Securities L.P., Canaccord Capital Corporation, Cormark Securities Inc. and Blackmont Capital Inc. (collectively, the "Agents") and the Company, no commission shall be paid by the Company to the Agents in consideration of the services rendered and to be rendered by the Agents in connection with the Offering. Where any trade results in a retail or sales commission, such commission shall be paid by the Company from the gross proceeds of the Offering.

The Offering was completed on 15 August 2008, and upon completion of the Offering, the Shares of the Company were listed and posted for trading at the Toronto Stock Exchange on 15 August 2008 (Toronto time).

17 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Accounting year ending 31 December 2008

Up to the date of issue of the unaudited interim financial report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ending 31 December 2008 and which have not been adopted in this interim financial report.

The following developments relate to matters that may be relevant to the Group's operations and 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's primary format for reporting segment information is geographical segments (see note 7).

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.

At this date, management is of the view that the adoption of the above standards and interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

18 Approval of the Unaudited Interim Report

The unaudited interim report was approved and authorised for issue by the Board on 18 August 2008.

Management Discussion and Analysis

Caution regarding forward-looking statements

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

Review of Results and Operations

During the six months ended 30 June 2008, the Group's sales increased 6% to RMB292,239,000 from RMB274,954,000 for the same period of 2007. The sales growth in the first half of 2008 was primarily attributable to increased sales of zirconium chemicals. The zirconium segment revenue has increased by 6% to RMB269,789,000. The Group continued to see a strong market for zirconium chemical products in current period and is expecting the growth to sustain. Gross profit of the Group for the first six months of 2008 was RMB76,043,000, with a gross margin of 26%, compared to gross profit for the same period of 2007 of RMB67,682,000 with a gross margin of 25%. The improvement in gross margin was mainly resulted from the increase in the selling prices of the Company's zirconium products.

Revenue contributed by the new energy materials segment during the period under review was RMB16,148,000, represented a 25% increase from same period last year. The increase was mainly attributable to the increase in sales of nickel hydroxide. As the price of nickel, a key material for the production of nickel hydroxide, dropped significantly in the current period improving the profit margin on this product, management decided to expand the production of this product. Management will continue to closely monitor the performance of this segment.

Sales of batteries dropped by 10% to RMB6,222,000. The Group will continue to allocate considerable resources to develop the market for the new high temperature battery with zirconium additive.

Net finance costs increased from RMB1,706,000 in the previous period to RMB6,453,000 in the current period as a result of the appreciation of Renminbi against United States dollars. Net exchange loss for the period was RMB6,412,000, which accounted for a substantial part of the net finance costs.

Profit attributable to shareholders for the period under review reported a period-to-period increase of 5% to RMB38,846,000. Net margin remained stable at around 13%.

Basic earnings per share for the period ended 30 June 2008 was calculated based on the number of shares in issue after the 10 for 1 share consolidation became effective on 30 June 2008. For comparative purpose, the earnings per share presented for all the previous periods were also restated to take into account the effect of the share consolidation. The decrease in basic earnings per share from RMB0.63 to RMB0.55 was mainly due to the fact that the total number of shares in issue during the period ended 30 June 2008 was higher than that in the same period last year.

Prospects

During the first half year of 2008, zircon price was relatively stable but remained at a high level. Prices of other raw materials also increased significantly. However, the Company was able to improve its profit margins through the upward price adjustments on most of its zirconium chemical products. In June 2008, there was a gas supply disruption to the zircon mine operations of the world's major zircon producer in Western Australia. This resulted in a sudden drop in the zircon supply which in turn pushed up the zircon price. It is anticipated that the zircon price will continue to increase in this second half year. The Company is actively seeking to develop its own zircon separation and processing facilities through the joint venture in Indonesia at a faster pace. The construction works of the zircon separation and processing facilities have been completed and the installation of machinery and equipment is in progress. The schedule for commencement of operation in the third quarter of 2008 remains unchanged. In future, the Company will be able to satisfy its own demand for zircon in its production process and is also strategically planning to become one of the major zircon suppliers in the China market.

Construction of phase I of the Binhai new plant has also substantially completed. Installation of machinery and equipment has just begun in mid-August. When new production plant come into operation, the Company's capacity will be increased by 15,000 tonnes per year. Upon completion of phase II of the Binhai facility, the Company's existing capacity for zirconium oxychloride will be doubled and the Company's competitive advantage of scale production will be further enhanced.

Looking ahead, through its two sizeable zirconium chemicals production facilities and a more secure source of zircon, the Company believes its zirconium business will expand at an accelerated pace in the coming years.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008.

Substantial Shareholder's and Directors' Interests in Securities

Substantial Shareholder's Interests in Securities

As at 30 June 2008, the register of shareholders maintained pursuant to the Securities and Futures Ordinance (the "SFO") shows that the following shareholders with interests representing 5% or more of the Company's issued share capital:

Name of Shareholders	Number of Shares	Percentage of total Share Capital
Yang Xin Min	28,302,294	39.9%
CCB International (Holdings) Limited	9,300,000	13.1%

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

Directors' Interests in Securities

As at 30 June 2008, the interests of the directors and chief executive of the Company in the securities of the Company and its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8, stipulated in Section 341 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of Interests	Number of shares and approximate percentage of shares interested
Yang Xin Min	Personal	28,302,294 (39.9%)

Share Option Granted Pursuant to the Share Option Scheme

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

During the period ended 30 June 2008, no Options (2007: 5,500,000) have been granted under the Scheme. There was no Options (2007: nil) outstanding as at 30 June 2008.

Liquidity and Financial Resources

As of 30 June 2008, the Group's cash and cash equivalents totalled RMB265,894,000, compared to RMB253,152,000 as of 31 December 2007. The increased balance was mainly generated from the operating activities in the current period.

At 30 June 2008, the Group unsecured banking facilities amounted to HK$400,000 (2007: HK$400,000) in the form of corporate credit cards and US$3,800,000 (2007: US$3,800,000) trade financing facilities secured by corporate guarantee of the Company.

The Group had no long-term liabilities as at 30 June 2008 and 31 December 2007.

Contingent Liabilities

At 30 June 2008, the Group had no material contingent liabilities.

Employees

For the six months ended 30 June 2008, the Group had approximately 745 employees (same period of 2007: 770 employees). In the first half of 2008, the aggregate employee remuneration (including directors' fees) was approximately RMB8,962,000 (same period of 2007: RMB9,486,000). The Group offers competitive salary packages to its employees who are also eligible for incentives based on their individual performance supplementing the Group's overall remuneration and bonus systems.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2008.

Pre-emptive Rights

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

Material Litigation

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

Corporate Governance

Compliance with the Code on Corporate Governance Practices

During the period ended 30 June 2008, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except in respect of a code provision providing for the roles of Chairman and Chief Executive Officer to be performed by different individuals. The deviation is deemed appropriate as the Company believes that the combination of the roles of Chairman and Chief Executive Officer promotes the efficient formulation and the implementation of the Company's strategies enabling the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted a code of conduct regarding directors' securities transactions in terms as stringent as those set out in the Model Code. All Directors, following specific enquiries made by the Company, confirmed that they have complied with the required standard of dealings as set out therein throughout the six months period ended 30 June 2008.

Audit Committee

The Company set up an Audit Committee on 24 September 2002 with its written terms of reference being in compliance with the Rules set out in "A Guide for the Formation of An Audit Committee" issued by Hong Kong Institute of Certified Public Accountants. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee along with the management have reviewed the accounting principles, standards and methods adopted by the Group, and has reviewed the unaudited Interim Financial Report for the six months ended 30 June 2008.

Post Balance Sheet Date Event

On 1 August 2008, China Zirconium Limited filed a prospectus relating to the distribution to the public (the "Offering") of fully paid shares. Pursuant to the agency agreement dated 1 August 2008 among GMP Securities L.P., Canaccord Capital Corporation, Cormark Securities Inc. and Blackmont Capital Inc. (collectively, the "Agents") and the Company, no commission shall be paid by the Company to the Agents in consideration of the services rendered and to be rendered by the Agents in connection with the Offering. Where any trade results in a retail or sales commission, such commission shall be paid by the Company from the gross proceeds of the Offering.

The Offering was completed on 15 August 2008, and upon completion of the Offering, the Shares of the Company were listed and posted for trading at the Toronto Stock Exchange on 15 August 2008 (Toronto Time).

By order of the Board
Yang Xin Min
Chairman

Hong Kong, 18 August 2008