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)

2008
Annual Report

* For identification purposes only

2008
Annual
Report

China Zirconium

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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
(Resigned on 15 August 2008)
Mr. Shi You Chun
(Resigned on 18 September 2008)
Mr. Andrew Leinwand
(Appointed on 15 August 2008)
Mr. Carl Steiss
(Appointed on 15 August 2008)
Mr. Victor Tong
(Appointed on 1 December 2008)

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

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

AUDITORS

KPMG LLP
Chartered Accountants
Suite 3300, Commerce Court West
PO Box 31, Stn Commerce Court
Toronto On M5L 1B2
Canada

PRINCIPAL BANKERS

Bank of China, Yixing Sub-branch
Bank of China, Xushe representative office
Agricultural Bank of China,
Xushe representative office
The Hongkong & Shanghai Banking
Corporation Limited
HSBC Bank Canada

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

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Causeway Bay
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Tel: (852) 2123 9986
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Email: investors@chinazirconium.com.hk

Corporate Information

LEGAL ADVISERS

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

PRINCIPAL REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

CANADIAN BRANCH SHARE REGISTRAR

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

STOCK NAME

China Zirconium

STOCK CODE/TRADING SYMBOL

Hong Kong Stock Exchange: 395
Toronto Stock Exchange: CZL

Financial Summary

	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**478,775**	541,510	446,719	425,767	357,218
Gross profit margin (%)	**23%**	23%	25%	25%	29%
Profit attributable to shareholders	**31,287**	61,464	57,797	61,886	64,143
EBIT	**45,146**	81,206	78,712	73,224	74,882
EBITDA	**64,660**	98,485	95,842	87,921	86,662
Dividends — ordinary shares	**3,788**	13,377	15,857	17,303	17,700
Earnings per share* (restated) — basic (RMB)	**0.44**	0.95	1.15	1.23	1.33
Earnings per share* (restated) — diluted (RMB)	**0.44**	0.95	n/a	n/a	n/a
Debt-equity ratio	**net cash position**	net cash position	net cash position	net cash position	net cash position
Dividends payout ratio (%)	**12%**	22%	27%	28%	28%
Ordinary shares* (restated after Share Consolidation) (shares)	**71,616,994**	70,967,094	50,417,094	50,417,094	50,417,094
Bank and cash balance	**278,403**	253,152	165,718	140,220	114,562
Cash per share* (restated) (RMB)	**3.9**	3.6	3.3	2.8	2.3
Total assets	**879,834**	861,101	659,814	610,210	528,283
Net asset value	**788,483**	766,764	537,132	495,922	452,286
Net asset value per share* (restated) (RMB)	**11.0**	10.8	10.7	9.8	9.0
Inventory turnover days	**56 days**	52 days	49 days	56 days	36 days
Debtors turnover days	**43 days**	44 days	39 days	34 days	32 days
Creditors turnover days	**11 days**	12 days	30 days	22 days	14 days

* The figures for 2004 to 2007 presented in the table above have been restated to take into account the 10 to 1 share consolidation ("Share Consolidation") which took effect from 30 June 2008.

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 Company was dual-listed on the Toronto Stock Exchange on 15 August 2008. 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 and 1,500 tonnes of new energy materials. In 2004, the Group established a new wholly-owned subsidiary in Yixing which specialised in the manufacture and sale of rechargeable batteries. It has developed and possessed intellectual property rights in the new type high temperature battery and power battery with zirconium additives. In 2007, the Group established a new wholly-owned subsidiary in Binhai, Jiangsu Province, the PRC, which will construct and operate a new zirconium production plant. Moreover, the Group expanded further into zircon processing and refining business through the establishment of a joint venture in Indonesia.

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

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

The Group's products, with "Long Jing" as the registered trademark in the PRC, Japan, US & Hong Kong, has long been well-received by the international market. Products have been exported to Japan, US and Europe for 30 years, 18 years and 19 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 for a two-year term until 2008. Mr. Yang is currently the Vice Chairman of "China Nonferrous Metals Association - Titanium, Zirconium and Hafnium Branch (中國有色金屬協會鈦鋯鉿分會). He is a member of the expert team of the Zirconium and Hafnium Institutional Committee since 2003. The management talent and industrial expertise of the Group are therefore widely recognised.

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

Chairman's Statement

On behalf of the Board of Directors (the "**Board**" or "**Directors**") of the Company, I am pleased to present the audited financial statements of the Company and its subsidiaries (collectively the "**Group**") for the financial year ended 31 December 2008 to the shareholders of the Company.

REVIEW OF OPERATIONS

Year 2008 was a dramatic year marked with the outbreak of the US sub-prime mortgage crisis which grown into a global financial tsunami. This economic crisis affected not only the Company's business performance but also the Company's fund raising plan in Canada. The Company was dual-listed on the Toronto Stock Exchange in August 2008 but given the unfavorable capital market conditions, the Company has decided to postpone the financing part of this project. On the business side, the Company's export sales started to suffer in the third quarter of 2008 when the PRC government imposed certain measures and restrictions on transportation and exporting during the Olympic Games in Beijing. Yet the Company was still able to achieve a slight year-to-year revenue growth in the third quarter and was hoping that when the restrictions were released after the Olympic Games, the exports sales business would back to normal. Unfortunately, the dramatic economic downturn in the fourth quarter has significant negative impact on the Company's business in the overseas market. After reporting a revenue growth in six consecutive years from 2002 to 2007, the Company reported a decrease in gross revenue, for the first time, for the year ended 31 December 2008. Profit attributable to shareholders has also declined in 2008 as compared to previous year. Facing the unstable conditions of the zirconium chemicals market, the management has rescheduled the development plan of the new Binhai plant and postpone the commencement of operation to mid-2009.

Despite the decline in operating results, the Company continues to maintain a strong balance sheet. Although we are currently facing an extremely difficult market, our Company has a strong management team and a very healthy balance sheet that will allow it to take full advantage of the many opportunities that will appear. Corresponding to the PRC government measures in stimulating domestic market demands, the Company has adjusted its strategy by shifting its focus from export sales market to the PRC domestic market. The Company will actively adjust the product mix in response to the development trends of the domestic demand. It is expected that the potential expansion in local sales will neutralize the impact of the economic depression on export businesses. Having said that, the Company will continue to consolidate the overseas markets and strengthen its long-term relationship with the overseas customers.

PROSPECTS

Entering the first few months of fiscal year 2009, we are highly focused on our ongoing financial stability and strength. The start of the current year has coincided with a period of rapid deterioration in almost all economic benchmarks and there is uncertainty concerning the depth and duration of this downturn. The economic outlook is not a bright one given the global credit crunch is slowing growth in most industries. The maintenance of a strong balance sheet therefore becomes of primary importance. In commercial terms, the zirconium chemicals segment in the first quarter has shown a significant drop in sales and new orders when compared to the previous year. The other business segments also show signs of softness. We expect that, on present trends, our results will be lower in 2009 than those on which we are currently reporting. However, we are optimistic in the long-term prospect of the Company. The problems facing the world economy are being aggressively addressed by the governments of various countries including China, the United States, Japan, Australia, England and other European countries. We are confident that the steps being taken will achieve the desired goals over time. In the meantime, we will continue to operate defensively but will also consider opportunities which can be executed safely.

On behalf of the Board, I would like to extend my sincere appreciation to our shareholders, our customers and all our staff for their continuous support.

Yang Xin Min
Chairman

INDUSTRY REVIEW

Year 2008 was a year full of challenges and opportunities. During the first three quarters, the market for zirconium chemicals was stable with steady growth. Started in the fourth quarter, the economic downturn triggered by the US sub-prime turmoil had spread to Europe and other countries, deteriorating into a global economic recession by the end of 2008. It is anticipated that the effect of the negative macroeconomic environment will continue through to 2009. Zirconium chemicals market in Japan is expected to decline as a result of the deteriorating operating environment for electronic products and motor vehicles industries. In the US and Europe markets, the cosmetics and paints and coatings industries also suffered from the economic downturn and zirconium chemicals sales in these regions will also slowdown. On a positive note, the development plan of nuclear power in China and in the US has no sign of backdown. The sales of zirconium chemicals to the nuclear power industry is expected to grow in the US market which will partly offset the negative growth in the other industries.

On the supply side, zircon price was less fluctuated in 2008 but the price of Australian-sourced zircon remained at a relatively high level, as compared to the price of zircon in the PRC domestic market. The market forecasted that the price and quantities of zircon supply in China will remain stable at least in the first half year of 2009.

BUSINESS REVIEW

2008 was a year full of challenges to the Company and the world economy. In the first half year of 2008, there was still a strong demand in the zirconium chemicals market and the Company was able to maintain a steady growth in its gross revenue. During the third quarter in 2008, the overall economic and operational environment in the PRC was negatively affected by certain measures and restrictions imposed by the government during the Olympic Games in Beijing. Export sales of the Company had been affected but the effects were considered to be small and temporary. It was hoping that when the restrictions were released after the Olympic Games, the exports sales business would back to normal. Unfortunately, the dramatic economic downturn, triggered by the US sub-prime turmoil and spread quickly to the other regions, has significant impact on the Company's overseas market in the fourth quarter of 2008. Reacting to the worsened macroeconomic environment in the fourth quarter, most of our customers reduced inventory levels and implemented more restrictive purchasing policies in anticipation of weakening consumer demands. This led to considerable decrease in the Company's zirconium chemicals sales in the fourth quarter of 2008. After reporting a revenue growth in six consecutive years from 2002 to 2007, the Company reported a decrease in gross revenue, for the first time, in 2008. On a positive note, sales of zirconium chemicals to the US is expected to remain stable because the sales made to nuclear power industry will be less affected by the global financial crisis. The negative macroeconomic conditions are expected to prevail into 2009. The management has therefore reconsidered the development schedule of the new Binhai plant and the commencement of production has been postponed to mid-2009.

Management Discussion and Analysis

The decline in the sales for the new energy materials and rechargeable batteries segments was relatively small, as compared to the zirconium chemicals segment. During the Year, management has decided to substantially scale down the production of lithium-ion batteries. This was a strategic decision to allow the Company to concentrate its resources on expanding into the market of high temperature batteries with zirconium additives. Management will continue to closely monitor the performance of the batteries and new energy materials segments and will consider reallocating, where appropriate, Company resources to segments with potential to bring about better operating results. During the Year, the management has also stopped the production of electronic ceramics and electronic materials in response to the deteriorating market for these products. Certain machinery and equipment were reallocated from this segment of the Company's operation to the Company's zirconium segment. For the machinery and equipment which could not be internally reallocated, an appropriate impairment allowance has been made.

Despite the relatively stable supply of zircon in the PRC market in 2008, the price of zircon directly imported from Australia remained relatively high. In order to avoid further erosion into the gross margin of its zirconium chemical products, the Company has increased the volume of zircon purchased from domestic suppliers in 2008. Towards the end of 2008, the Company's zircon processing and refining facilities in Indonesia (the "Indonesian Facilities") has successfully completed its test runs. The Indonesian Facilities started production in February 2009 with an initial scale of three hundred tonnes per month. The Company will progressively scale up the zircon production in 2009 with the goal of becoming self-sufficient in zircon supply by the end of year 2009.

OUTLOOK

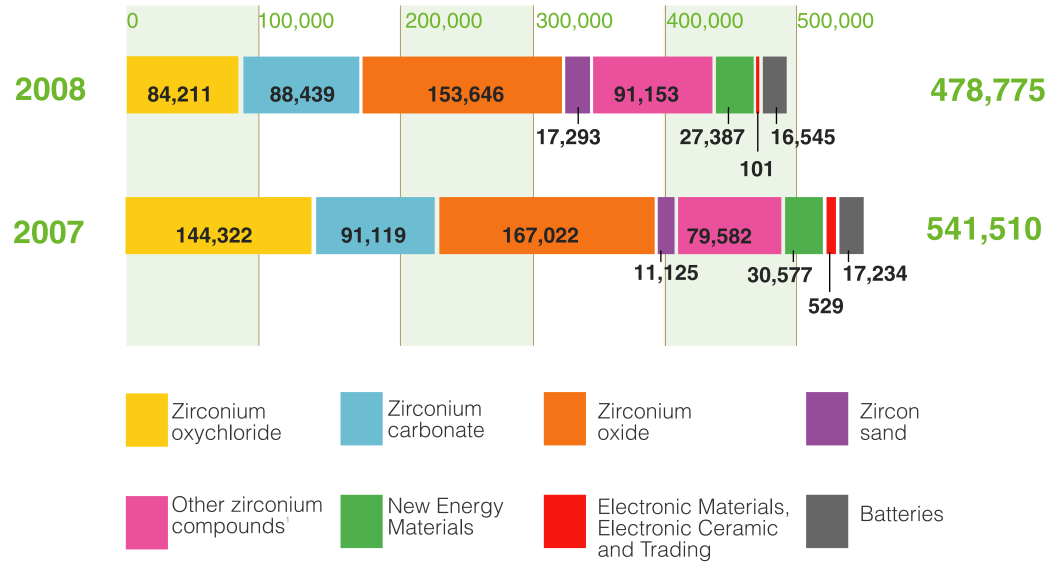
Looking ahead, the Company will divert more resources on expanding its market share in the domestic market of zirconium chemicals. The Company will seize the opportunities to benefit from the growth in domestic demand stimulated by the policies imposed by the PRC government. On the other hand, the Company will also consolidate its long-term relationship with overseas customers, in particular the nuclear power equipment producers in the US. The management expected that the operating environment in the coming year will be difficult. Yet given the financial strength of the Company and its leading experience in the zirconium industry, the management has confident in riding the business through the difficult period.

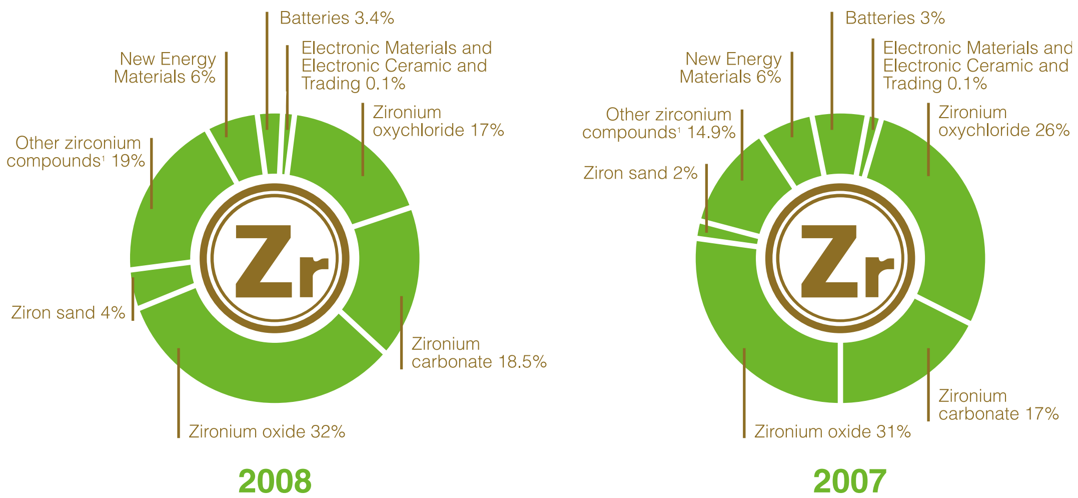
FINANCIAL REVIEW

For the year ended 31 December 2008, the Group reported a consolidated turnover of RMB478,775,000, represented a year-to-year decline by 12%. Gross margin remained stable at 23% whereas the net margin dropped from 11% in 2007 to 6.5% in 2008. The decrease in net margin was a result of the increase in administrative expenses which primarily due to the disbursement on: (i) the costs associated with the TSX Listing of the Company's shares; (ii) administrative expenses incurred by the new subsidiaries in Binhai and Indonesia; (iii) an allowance of approximately RMB9.3 million for the impairment of property, plant and equipment in the rechargeable batteries segment (those related to lithium-ion batteries production) and the electronic ceramics segment. This impairment loss allowance was coincided with the Company's strategy in scaling down the operation of segments which did not produce promising results as expected. The management is targeting to optimise the use of the Company's resources for maximising return for its shareholders.

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 2008 and 31 December 2007 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.

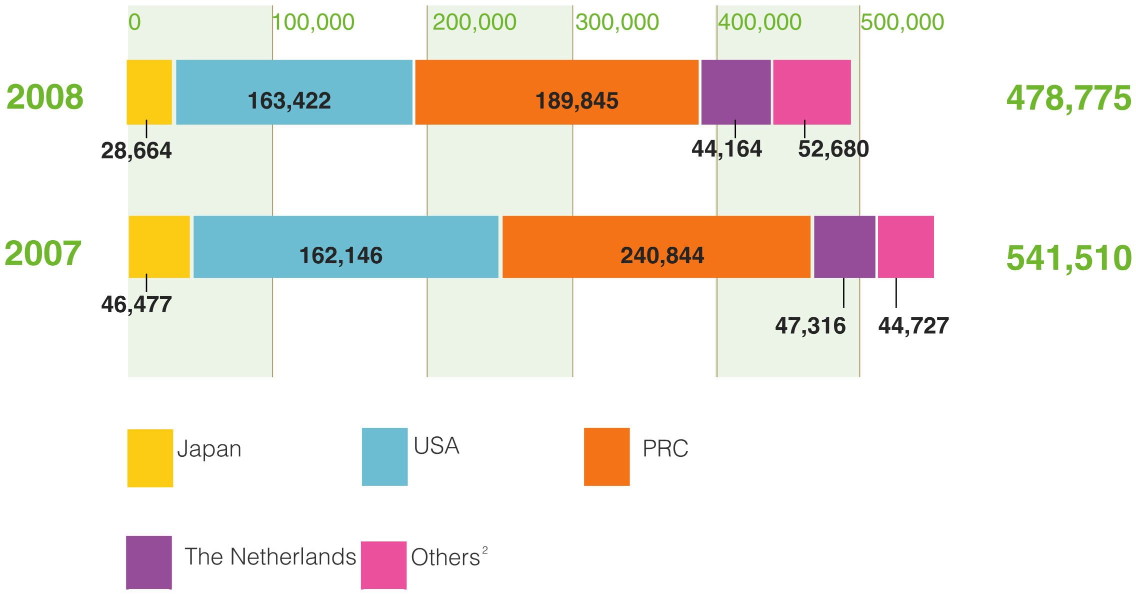
Management Discussion and Analysis

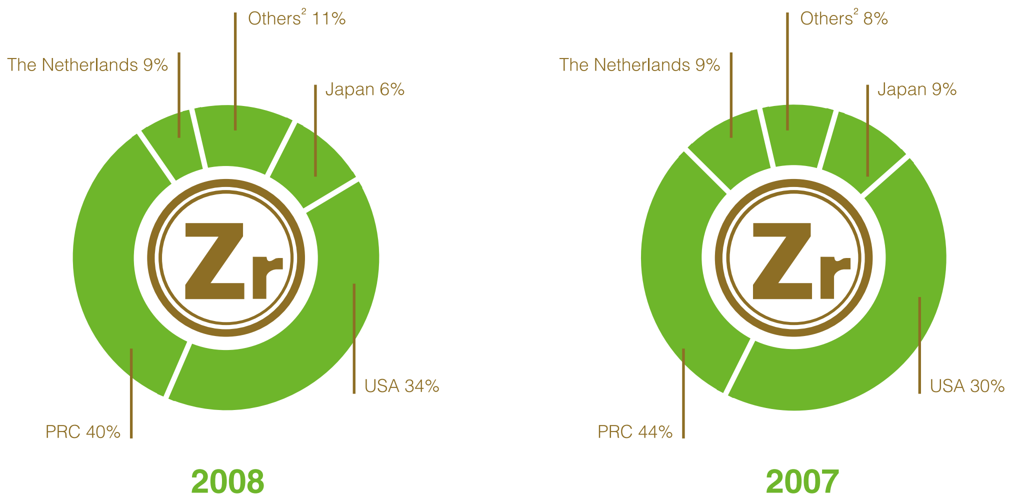
As over half of the Company's sales were exports to the US, Japan and the Netherland (Europe), the economic downturn in these countries has significantly affected the Company's zirconium chemicals business in the fourth quarter of 2008. In this challenging environment, the Company's sales of zirconium chemicals for the year under review was RMB434,742,000 (2007: RMB493,170,000). Management continued its strategy of improving the Company's product mix, placing more emphasis on marketing of higher value-added products with higher sales value and profit margin. This was reflected in the increased percentage of sales of zirconium oxides from 31% to 32% of total sales. The Company has also increased the production of a variety of zirconium chemicals (classified as "other zirconium compounds") which have less suppliers in the market and are only subject to moderate competition. Despite the economic slowdown, sales of other zirconium compounds increased to RMB91,153,000 (2007: RMB79,582,000).

Comparing to the zirconium chemicals segment, the decline in the sales of new energy materials and rechargeable batteries was relatively smaller. Sales of new energy materials was RMB27,387,000 (2007: RMB30,577,000) and sales of rechargeable batteries was RMB16,545,000 (2007: RMB17,234,000), representing a decrease of 10% and 4% respectively. During the year, Management has decided to substantially scale down the production of li-ion batteries and stopped the production of electronic ceramics and electronic materials. The strategic decision allowed the Company to use its resources more efficiently in segments with promising results.

Turnover analysis by geographical region

The following charts presented a year-to-year comparison of the 2008 and 2007 turnover in terms of geographical locations:





Note 2: "Others" included the Germany, India, Italy and other countries.

The Company achieved a mix performance in its export sales to different markets. Sales to the US and other countries (including Germany, India, the Italy and other countries) increased whereas the sales to Japan and the Netherland decreased. Sales to the US market was RMB163,422,000 (2007: RMB162,146,000) and to other countries was RMB52,680,000 (2007: RMB44,727,000). During the year 2008, the Company has increased its supplies to a major customer which is involved in the production of nuclear power equipment. The increased sales to this customer had been partly offset by the drop in the Company's sales to the other customers in the US. Sales contributed by the Japanese market has decreased by 38% to RMB28,664,000. As the zirconium chemicals sold to Japan were mainly for the use in electronic devices and motor vehicles spare parts, the significant slowdown of these two industries in Japan has a significant impact on the Company's sales.

Sales to the PRC domestic market was RMB189,845,000 (2007: RMB240,844,000). Despite the sales decrease in 2008, the management is optimistic in the long term PRC market. In 2009, the Company planned to allocate additional resources to the marketing in the PRC and will strive to achieve an optimal balance between its local sales and export sales businesses.

Gross Profit and Gross Margin

Gross profit for the year decreased by 10% to RMB111,995,000 (2007: RMB124,598,000), with the average gross margin remained stable at 23%.

Capital Expenditure

The capital expenditures for the year ended 31 December 2008 and 2007 were approximately RMB124,707,000 and RMB76,463,000, respectively. The significant increase in 2008 represented the capital expenditures in the Binhai new plant and the zircon separation facilities in Indonesia.

Liquidity and Financial Resources

The Group continued to be cash positive in 2008. As at 31 December 2008, the Group's bank and cash balances were approximately RMB278,403,000 (2007: RMB253,152,000). The Group continued to maintain a strong and healthy financial structure.

The Group's trade receivables turnover days decreased from 44 days in 2007 to approximately 43 days in 2008. 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 2008 decreased by approximately 25% to RMB48,263,000 (2007: RMB64,758,000), which mainly represented by the reduced level of zircon stock that was kept by the Company. Inventory turnover days increased from 52 days to 56 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 2008, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2008, the Group did not pledge any assets (2007: Nil) as securities for the banking facilities granted by its bankers.

Human Resources

As at 31 December 2008, the Group had a total of approximately 735 employees (2007: 743 employees). Total staff costs (including directors' emoluments) for the year was approximately RMB23,383,000 (2007: RMB19,887,000), representing 5% of the Group's turnover (2007: 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. The Remuneration Committee of the Company's Board of Directors is responsible for overseeing and reviewing the remuneration packages of the Directors and senior management.

EXECUTIVE DIRECTORS

Mr. Yang Xin Min, aged 59, 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 is currently the vice chairman of the "China Nonferrous Metals Association - Titanium, Zirconium and Hafnium Branch" and a member of its expert team for zirconium industry.

Ms. Huang Yue Qin, aged 40, 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 50, 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 39, 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 40, 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 69, 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. Guo has resigned in August 2008.

Mr. Shi You Chun, aged 52, 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 (江蘇省高新科技研究會) 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). Mr. Shi has resigned in September 2008.

Mr. Andrew Leinwand, aged 33, was appointed as the independent non-executive Director of the Company in August 2008. He has over 5 years experience working at the Toronto Stock Exchange ("TSX"), most recently as the Senior Manager of Business Development responsible for Exchange Traded Funds and Structured Products. He graduated from the Schulich School of Business with a Masters in Business Administration in 2004. From July 2004. From July 2004 to April 2006, Mr. Leinwand was employed as Finance Manager of Procter & Gamble Canada (a consumer goods company) before re-joining the TSX in May 2006 as a Listing Manager. Mr. Leinwand was the Listing Manager on the inaugural Hong Kong Stock Exchange inter-listing of Harmony Asset Limited and later developed and launched the S&P/TSX Global Mining Index in June 2007. Mr. Leinwand has also been the Finance and Planning Manager for the consumer division at Black & Decker Canada (a tool manufacturing company).

Mr. Carl Steiss, aged 68, was appointed as the independent non-executive Director of the Company in August 2008. He is a chartered accountant with over 35 years of experience. Mr. Steiss's recognition as a leading professional within the accounting community is noted by his appointment to the Price Waterhouse & Co. World Firm International Tax Board in 1981, and later as Chairman in 1985. Mr. Steiss was also appointed Senior Tax Partner for the Montreal office of Price Waterhouse & Co. in 1980, as a member of the Price Waterhouse & Co. Canadian Policy Board in 1988, and Canadian Senior National Tax Partner of Price Waterhouse & Co. in 1996. In 1999, Mr. Steiss was appointed Partner-in-Charge, Sales and Business Development of PricewaterhouseCoopers LLP, until his retirement in 2002. Mr. Steiss was a Board Member of the Canadian Tax Foundation from 1994 to 1999 and Board Chair of the Canadian Tax Foundation from 1997 to 1998, Mr. Steiss is also a Life Member of each of the Canadian Tax Foundation and the Canadian Institute of Chartered Accountants. In addition, Mr. Steiss has published numerous technical tax articles and papers for various professional publications, and was a lecturer and Course Coordinator for the Commerce and Finance Program at the University of Toronto from 1967 to 1978. Mr. Steiss served as a regular lecturer at the CICA In-Depth Tax Course.

Profile of Directors and Senior Management

Mr. Victor Tong, aged 58, was appointed as the independent non-executive Director of the Company in December 2008. He currently holds the position of Chief Financial Officer for the North American operations of a global life sciences company. He has 20 years of investment banking experience in Canada, including executive positions in corporate finance with Deloitte and HSBC. Mr. Tong was also a lecturer of the M.B.A. program at York University.

SENIOR MANAGEMENT

Ms. Li Mei Kuen, aged 40, is the Chief Financial Officer and Company Secretary of the Group. Ms. Li graduated from La Trobe University, Melbourne, Australia and received a bachelor degree in commerce (accounting). She is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Before joining the Group, 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 41, is the Deputy General Manager and Head of the Technology and Quality Control Department of the Group's zirconium business. Ms. Sun joined the Group in 1990 and has been responsible for quality control, analysis and monitoring of zirconium chemicals. Ms. Sun has been involved in devising the national quality standards for zirconium chemical products with the former Ministry of Chemical Industry of the PRC. Ms. Sun is the leader of the Group's working team for the ISO9002 accreditation and is also supervising the zirconium research and development works.

Ms. Wu Si Hui (also known as Wu Xi Wei), aged 40, 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 four 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. Andrew Leinwand
		Mr. Carl Steiss
		Mr. Victor Tong

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

Biographies of all Directors are set out on pages 16 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, 4 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	3/4
Mr. Zhou Quan	4/4
Mr. Li Fu Ping	4/4
Mr. Cheng Faat Ting Gary	4/4
Mr. Guo Jing Mao (Resigned on 15 August 2008)[1]	2/2
Mr. Shi You Chun (Resigned on 18 September 2008)[1]	3/3
Mr. Andrew Leinwand (Appointed on 15 August 2008)[1]	2/2
Mr. Carl Steiss (Appointed on 15 August 2008)[1]	2/2
Mr. Victor Tong (Appointed on 1 December 2008)[1]	1/1

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

INEDs

The Company has appointed four INEDs, all possess recognised accounting professional qualifications in Hong Kong, the United States or Canada.

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 held four meetings during the Year, in particular, to review and discuss:

— the quarterly/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 2007;

— 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 LLP as the Company's external auditors for 2009. 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 2009.

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 2008, KPMG, the Company's external auditors, received approximately RMB3,469,000 for annual audit service and approximately RMB2,364,000 for non-audit services (including mainly the transaction advisory service for the Company's listing of shares on The Toronto Stock Exchange) 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. Carl Steiss
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 Directors and senior management. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management. The Remuneration Committee meets at least once a year. The Remuneration Committee had reviewed the remuneration packages of all Directors and made recommendation to the Board during the year.

(c) Nomination Committee

The Nomination Committee consists of the following members:

Mr. Cheng Feat Ting Gary *(Chairman)*
Mr. Andrew Leinwand
Mr. Carl Steiss

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	4/4	1/1	1/1
Mr. Guo Jing Mao (Resigned on 15 August 2008)[1]	1/1	N/A	1/1
Mr. Shi You Chun (Resigned on 18 September 2008)[1]	2/2	1/1	1/1
Mr. Andrew Leinwand (Appointed on 15 August 2008)[1]	3/3	N/A	N/A
Mr. Carl Steiss (Appointed on 15 August 2008)[1]	2/2	N/A	N/A
Mr. Victor Tong (Appointed on 1 December 2008)[1]	1/1	N/A	N/A

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

DIRECTORS' SECURITIES TRANSACTIONS

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

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

ACCOUNTABILITY AND AUDIT

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

The statement of the auditors of the Company about their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 37 to 38.

INTERNAL CONTROLS

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The 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 20 business 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 2007 and Interim Report 2008 were sent to all shareholders.

All the reports, announcements and circulars that had been filed by the Company with the regulatory authorities can be reviewed at the Company's website at www.chinazirconium.com.hk.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the research, development, manufacture and sale of a wide range of zirconium chemicals, 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 2008 (the "Year") are set out in the consolidated income statement on page 39.

The Board has recommended payment of a final dividend of HK6 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 2009, such dividend will be paid on 22 May 2009 to shareholders whose names appear in the register of members of the Company on 17 April 2009 ("Dividend Record Date").

The register of members of the Company will be closed from 20 April 2009 (Monday) to 15 May 2009 (Friday), 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 2009, all transfer documents accompanied by the relevant share certificates must be lodged with either one of the Company's branch share registrars listed below for registration by no later than 4:30 p.m. on 17 April 2009 (Friday):

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

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

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

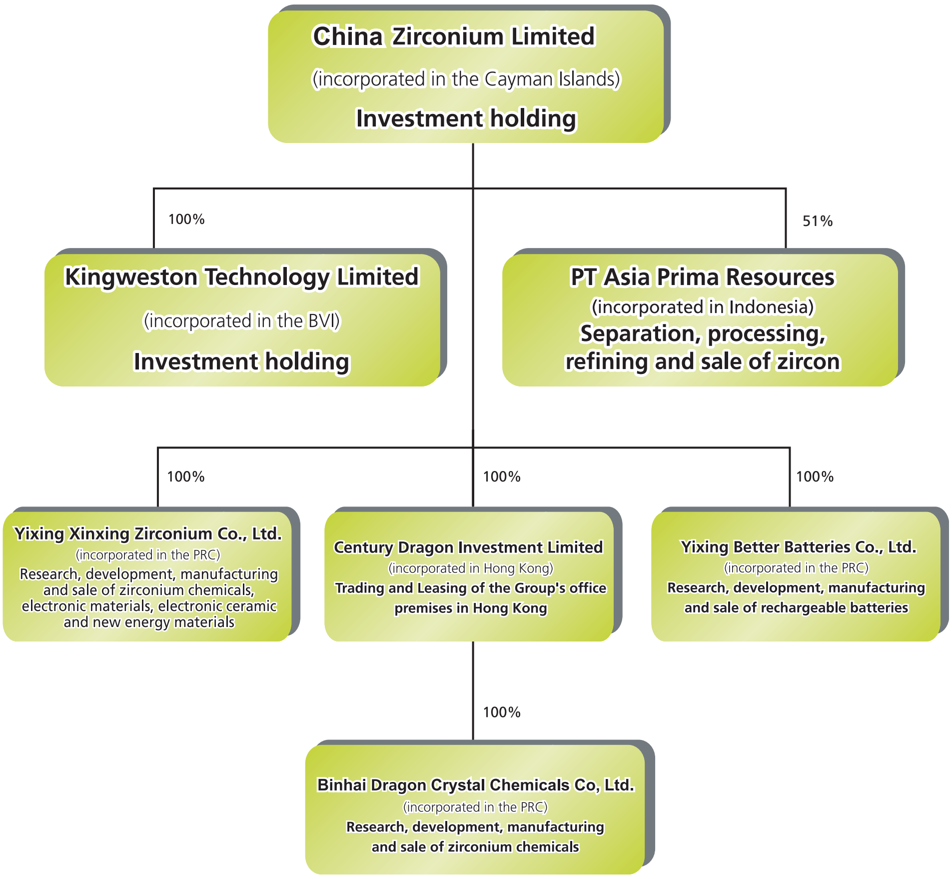
RESERVES

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 43.

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 2008 amounted to approximately HK$237,341,000 (2007: HK$268,883,000).

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 16 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. Andrew Leinwand
Mr. Carl Steiss
Mr. Victor Tong

Each of the above Directors has entered into a service contract with the Company for an initial term of three or two years. Each service contract will continue thereafter unless terminated by either party thereto giving to the other at least three months' notice (Executive Directors) or one month's notice (Independent Non-executive Directors) in writing.

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2008, 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	28,817,894	40.24%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2008, 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	28,817,894	40.24%
CCB International (Holdings) Limited	9,300,000	12.99%

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 2008, 310,000 (2007 (restated): 550,000) Options have been granted under the Scheme.

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

				Number of Options			
Name of Grantee	Date of Grant	Exercisable Period	Subsription price per Share	Outstanding as at 31 December 2007	Granted during the year	Exercised during the year	Outstanding as at 31 December 2008
Directors:							
Yang Xin Min	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	80,000	—	80,000
Zhou Quan	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	30,000	—	30,000
Huang Yue Qin	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	30,000	—	30,000
Li Fu Ping	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	30,000	—	30,000
Cheng Faat Ting Gary	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	10,000	—	10,000
Shi You Chun	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	10,000	—	10,000
Andrew Leinwand	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	10,000	—	10,000
Carl Steiss	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	10,000	—	10,000
Victor Tong	1 December 2008	1 December 2008 to 30 November 2013	HK$2.85	—	10,000	—	10,000
Subtotal				—	220,000	—	220,000
Employee:							
Li Mei Kuen Susanna	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	30,000	—	30,000
Other parties:							
Josh Gerstein	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	30,000	—	30,000
Goldpac Investments Ltd.	15 August 2008	15 August 2008 to 15 August 2013	HK$6.60	—	30,000	—	30,000
Subtotal				—	60,000	—	60,000
Grand Total				—	310,000	—	310,000

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.

Purchase of machinery and equipments

P.T. Asia Prima Resources ("APR", as purchaser), the Company's subsidiary, entered into two sales contracts with Yixing Xinxing Import & Export Co., Ltd. (宜興市新興進出口有限公司, "Xinxing I&E", as vendor) on 19 January 2008 ("Sales Contract I") and 19 February 2008 ("Sales Contract II") respectively pursuant to which Xinxing I&E agreed to sell and APR agreed to purchase certain machinery and equipments for an aggregate consideration of US$367,640 (approximately RMB2,552,000).

Xinxing I&E is controlled by Mr. Yang Zhen, the son of Mr. Yang Xin Min, the controlling shareholder and Chairman of the Company. Xinxing I&E is therefore a connected person of the Company and the supply of the Products constitutes the Connected Transaction under Chapter 14A of the Listing Rules. The de minimis threshold under Rule 14A.31(2) of the Listing Rules was exceeded when the transaction contemplated under the Sales Contract II aggregated together with the transaction contemplated under the Sales Contract I pursuant to Rule 14A.25 of the Listing Rules.

As the applicable percentage ratios (other than profits ratio) relevant to aggregate consideration for the Connected Transaction is more than 0.1% but less than 2.5%, the Connected Transaction is subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules but exempt from the approval of the independent Shareholders. The Company has made the appropriate disclosure during the Year in accordance with the applicable requirements.

Save for the two Sales Contracts, the Group did not have any prior relationship or transactions with Xinxing I&E and its ultimate beneficial owners that require aggregation under Rules 14.22 and 14A.25 of the Listing Rules.

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 19 to 25.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 11% and 39% 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 45% 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 2008, the Group made RMB605,000 donations to charitable organisations and university educational funds in the PRC (2007: Nil).

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 LLP, Toronto, was appointed as auditors of the Company on 24 December 2008 upon the resignation of KPMG, Hong Kong.

KPMG LLP retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG LLP 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

31 March 2009

Independent auditor's report to the Shareholders of
China Zirconium Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Zirconium Limited (the "Company") which comprise the consolidated and company balance sheets as at 31 December 2008 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 ("IFRSs") 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. We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 judgment, 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.

Independent Auditor's Report

OPINION

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2008 and the results of its operations and its 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.

The financial statements as at 31 December 2007 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements.

KPMG LLP
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
31 March 2009

Consolidated income statement

for the year ended 31 December 2008
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Turnover	3	**478,775**	541,510
Cost of sales	5(c)	**(366,780)**	(416,912)
Gross profit		**111,995**	124,598
Other net income	4	**2,355**	1,097
Distribution costs		**(12,202)**	(13,194)
Administrative expenses		**(44,851)**	(20,629)
Other operating expenses		**(2,817)**	(4,314)
Profit from operations		**54,480**	87,558
Net finance costs	5(a)	**(9,645)**	(7,529)
Profit before taxation	5	**44,835**	80,029
Income tax	6(a)	**(13,942)**	(18,565)
Profit for the year		**30,893**	61,464
Attributable to:			
Equity shareholders of the company		**31,287**	61,464
Minority interests		**(394)**	—
Profit for the year		**30,893**	61,464
Dividends payable to equity shareholders of the company attributable to the year	10	**3,788**	13,377
Earnings per share (restated)			
– Basic (cents)	11(a)	**43.9**	94.8
– Diluted (cents)	11(b)	**43.9**	94.7

The notes on pages 46 to 107 form part of these financial statements.

Consolidated balance sheet

at 31 December 2008
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	13	**303,186**	265,987
Construction in progress	14	**85,938**	46,208
Lease prepayments	15	**68,037**	50,893
Intangible assets	16	**174**	903
Long-term prepayments	18	**35,119**	59,689
Deferred tax assets	27(b)	**6,246**	3,237
Total non-current assets		**498,700**	426,917
Current assets			
Inventories	19	**48,263**	64,758
Trade and other receivables and prepayments	20	**52,681**	114,876
Amount due from related parties	22, 32(c)	**170**	47
Lease prepayments	15	**1,617**	1,351
Cash and cash equivalents	21	**278,403**	253,152
Total current assets		**381,134**	434,184
Total assets		**879,834**	861,101
Current liabilities			
Trade and other payables	23	**54,167**	48,820
Amounts due to related parties	22, 32(c)	**10,185**	1,347
Interest-bearing borrowings	24	**6,832**	12,249
Current taxation	27(a)	**19,637**	31,921
Total current liabilities		**90,821**	94,337
Net current assets		**290,313**	339,847
Total assets less current liabilities		**789,013**	766,764
Non-current liabilities			
Deferred tax liabilities	27(b)	**(530)**	—
NET ASSETS		**788,483**	766,764

Consolidated balance sheet

at 31 December 2008
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
CAPITAL AND RESERVES			
Share capital	28	**74,242**	73,671
Reserves	29 (b)	**348,382**	362,380
Retained earnings		**362,000**	330,713
Total equity attributable to equity shareholders of the company		**784,624**	766,764
Minority interests		**3,859**	—
TOTAL EQUITY		**788,483**	766,764

Approved and authorised for issue by the board of directors on 31 March 2009

Director *Director*

The notes on pages 46 to 107 form part of these financial statements.

Balance sheet

at 31 December 2008
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Interests in subsidiaries	17	**275,026**	303,257
Current assets			
Other receivables	20	**12,589**	15,987
Cash and cash equivalents	21	**1,516**	2,359
		14,105	18,346
Current liabilities			
Other payables	23	**3,383**	1,165
Amounts due to related parties	22, 32(c)	**12,236**	127
		15,619	1,292
Net current (liabilities)/assets		**(1,514)**	17,054
Total assets less current liabilities		**273,512**	320,311
Non-current liabilities			
Deferred tax liabilities	27(b)	**(530)**	—
NET ASSETS		**272,982**	320,311
CAPITAL AND RESERVES			
Share capital	28	**74,242**	73,671
Reserves	29	**225,677**	258,146
Accumulated losses	29	**(26,937)**	(11,506)
TOTAL EQUITY		**272,982**	320,311

Approved and authorised for issue by the board of directors on 31 March 2009

Director *Director*

The notes on pages 46 to 107 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2008
(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	Minority interests	Total
	RMB'000	*RMB'000*	*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))*	*(Note 29(b))*	*(Note 29(b))*				
At 1 January 2007	53,529	(11,085)	132,870	83,030	—	(180)	278,968	537,132	—	537,132
Equity settled share-based payments	—	—	—	—	670	—	—	670	—	670
Shares issued under placement, net of issuance costs	19,608	—	163,450	—	—	—	—	183,058	—	183,058
Shares issued under share option scheme	534	—	4,411	—	(670)	—	—	4,275	—	4,275
Exchange difference on translation of financial statements of operations outside the People's Republic of China ("the PRC")	—	—	—	—	—	(4,461)	—	(4,461)	—	(4,461)
Net profit for the year	—	—	—	—	—	—	61,464	61,464	—	61,464
Appropriation to statutory reserves	—	—	—	9,719	—	—	(9,719)	—	—	—
Dividends approved during the year	—	—	(15,374)	—	—	—	—	(15,374)	—	(15,374)
At 31 December 2007	73,671	(11,085)	285,357	92,749	—	(4,641)	330,713	766,764	—	766,764
At 1 January 2008	73,671	(11,085)	285,357	92,749	—	(4,641)	330,713	766,764	—	766,764
Equity settled share-based payments	—	—	—	—	637	—	—	637	—	637
Capital injection by minority interests	—	—	—	—	—	—	—	—	4,986	4,986
Shares issued under placement, net of issuance costs	571	—	—	—	—	—	—	571	—	571
Exchange difference on translation of financial statements of operations outside the PRC	—	—	—	—	—	(1,258)	—	(1,258)	(733)	(1,991)
Net profit/(loss) for the year	—	—	—	—	—	—	31,287	31,287	(394)	30,893
Dividends approved during the year	—	—	(13,377)	—	—	—	—	(13,377)	—	(13,377)
At 31 December 2008	74,242	(11,085)	271,980	92,749	637	(5,899)	362,000	784,624	3,859	788,483

The notes on pages 46 to 107 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2008
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Operating activities			
Profit before taxation		**44,835**	80,029
Adjustments for:			
– Depreciation	5(c)	**17,280**	15,227
– Amortisation of lease prepayments	5(c)	**1,505**	1,351
– Amortisation of intangible assets	5(c)	**729**	701
– Interest expense	5(a)	**311**	1,177
– Interest income	5(a)	**(705)**	(1,143)
– Equity-settled share-based payments		**637**	670
– Impairment loss of property, plant and equipment	5(c)	**9,290**	—
– Provision for inventories		**123**	—
– Allowance for doubtful debt	5(c)	**1,990**	—
– Loss on disposal of property, plant and equipment		**44**	—
– Foreign exchange loss/ (gain)		**1,696**	(1,349)
Operating profit before changes in working capital		**77,735**	96,663
Decrease/(increase) in inventories		**16,372**	(11,291)
Decrease in trade and other receivables and prepayments		**60,141**	2,166
Increase in amounts due from related parties		**(123)**	(47)
Decrease in trade and other payables		**(11,199)**	(4,121)
Increase/(decrease) in amounts due to related parties		**8,838**	(7,931)
Cash generated from operations		**151,764**	75,439
Income tax paid		**(28,705)**	(22,504)
Net cash generated from operating activities		**123,059**	52,935

Consolidated cash flow statement

for the year ended 31 December 2008
(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(5,363)**	(19,498)
Proceeds from disposal of property, plant and equipment		**1,526**	—
Deposits for the purchase of property, plant and equipment		**(2,090)**	(652)
Payment for intangible assets		**—**	(145)
Payment for construction in progress		**(47,119)**	(56,820)
Payment for lease prepayments		**(4,934)**	—
Increase in long-term prepayments		**(25,809)**	(44,638)
Interest received		**705**	1,143
Net cash used in investing activities		**(83,084)**	(120,610)
Financing activities			
Proceeds from new bank borrowings		**6,832**	60,765
Repayment of bank borrowings		**(12,249)**	(75,210)
Proceeds from shares issued, under placement, net of issuance costs	28(b)(iii)	**571**	183,058
Proceeds from shares issued under share option scheme	28(c)	**—**	4,275
Capital contribution from minority shareholder		**4,986**	—
Dividends paid to equity shareholders of the Company	10(b)	**(12,669)**	(15,374)
Interest paid	5(a)	**(311)**	(1,177)
Net cash (used in)/generated from financing activities		**(12,840)**	156,337
Net increase in cash and cash equivalents		**27,135**	88,662
Cash and cash equivalents at 1 January		**253,152**	165,718
Effect of foreign exchange rate changes		**(1,884)**	(1,228)
Cash and cash equivalents at 31 December	21	**278,403**	253,152

The notes on pages 46 to 107 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") in 2002 and on Toronto Stock Exchange in 2008. The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group principally is engaged in the manufacture and trading of zirconium compounds, 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 consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

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

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation *(continued)*

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.

(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 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.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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	4 - 20 years
— Office equipment and fixtures	4 - 8 years
— Motor vehicles	4 - 8 years

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

(e) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(i)). Cost comprises direct costs of construction 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Lease prepayments

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

(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;

— investments 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

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

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(n) Cash and cash equivalents

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

(o) Employee benefits

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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).

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Income tax *(continued)*

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.

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

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.

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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 borrowings, tax balances, corporate and financing expenses.

2 NEW AND REVISED IFRSs EFFECTIVE FOR ACCOUNTING PERIODS ON OR AFTER 1 JANUARY 2008

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. However, none of these developments are relevant to the Group's or the Company's operations.

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:

	2008	2007
	RMB'000	*RMB'000*
Sales of zirconium compounds	**434,742**	493,170
Sales of new energy materials	**27,387**	30,577
Sales of rechargeable batteries	**16,545**	17,234
Sales of electronic materials and electronic ceramics	**101**	529
	478,775	541,510

4 OTHER NET INCOME

	2008	2007
	RMB'000	*RMB'000*
Government grants	**1,223**	237
Others	**1,132**	860
	2,355	1,097

5 PROFIT BEFORE TAXATION

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

		2008 RMB'000	2007 RMB'000
(a)	Net finance costs:		
	Interest income	**(705)**	(1,143)
	Interest on bank borrowings wholly repayable within five years	**311**	1,177
	Net exchange loss	**10,039**	7,495
		9,645	7,529
(b)	Staff costs:		
	Salaries, wages and other benefits	**20,312**	16,392
	Contributions to defined contribution retirement schemes	**2,524**	3,495
	Equity settled share-based payment expenses *(note 26)*	**547**	—
		23,383	19,887
(c)	Other items:		
	Amortisation		
	— lease prepayments	**1,505**	1,351
	— intangible assets	**729**	701
	Impairment losses		
	— trade receivables	**1,990**	—
	— property, plant and equipment	**9,290**	—
	Depreciation	**17,280**	15,227
	Research and development costs	**2,211**	4,064
	Auditors' remuneration		
	— audit services	**3,469**	1,163
	— other services	**3,477**	—
	Operating lease charges in respect of office premises in Hong Kong	**671**	716
	Cost of inventories *(note 19)* #	**366,780**	416,912

Cost of inventories includes RMB30,974,000 (2007: RMB27,530,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these type of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2008 RMB'000	2007 RMB'000
Current tax — PRC income tax		
Provision for the year	**19,203**	21,802
Over-provision in respect of prior year	**(2,782)**	—
	16,421	21,802
Deferred tax		
Origination and reversal of temporary differences *(note 27(b))*	**(2,479)**	(3,237)
	13,942	18,565

(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 purpose of Hong Kong Profits Tax for the year ended 31 December 2008.

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

	Note	2008	2007
Yixing Xinxing Zirconium Company Limited ("YXZL")	(1)	**25%**	24%
Yixing Better Batteries Company Limited ("YBBL")	(2)	**—**	—
Binhai Dragon Crystal Chemicals Company Limited ("BHDC")	(3)	**—**	—
P.T. Asia Prima Resources ("APR")	(4)	**—**	N/A

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(continued)

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

(iii) *(continued)*

Notes:

In 2007, the standard corporate income tax rate for enterprises in the PRC was 33%. YXZL, YBBL and BHDC were subject to EIT at a rate of 24%, being the standard rate for foreign enterprises located in coastal open economic regions in the PRC.

On 1 January 2008, the Corporate Income Tax Law of the PRC ("New Tax Law") took effect and the PRC income tax rate is unified to 25% for all enterprises. On 26 December 2007, the State Council of the PRC passed an implementation guidance note ("Implementation Guidance") which sets out details of how existing preferential income tax rates would be adjusted to the standard rate of 25%. According to the Implementation Guidance, the tax rate applicable to YXZL, YBBL and BHDC has changed to the standard tax rate of 25% effective from 1 January 2008 (2007: 24%).

(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% (2007: 24%), on the assessable profit for the year.

(2) Pursuant to the relevant income tax laws in the PRC, YBBL is subject to EIT at a tax rate of 25% (2007: 24%) on the assessable profit. No EIT provision is made for YBBL as it incurred tax losses for both 2007 and 2008.

(3) BHDC was established on 20 August 2007. Pursuant to the relevant income tax laws in the PRC, BHDC is subject to EIT at a tax rate of 25% (2007: 24%) on the assessable profit. No EIT provision is made as it has no assessable profits for both 2007 and 2008.

(4) APR was established on 1 July 2008. No corporate income tax provision is made as it has no assessable profits for the year. APR is subject to corporate income tax at progressive rates ranging from 10%-30%, based on the level of assessable profit earned by the enterprise.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(continued)

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

(iii) 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 non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to dividend withholding tax. The Implementation Rules provides for the dividend withholding tax to be at 10% unless reduced by treaty.

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

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.

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

	2008 **RMB'000**	2007 RMB'000
Profit before taxation	**44,835**	80,029
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**15,100**	29,110
Tax effect of non-deductible expenses	**119**	379
Tax effect of non-taxable income	**—**	(59)
Tax effect on tax loss not recognised	**1,013**	307
Deferred tax assets not recognised in prior years	**(83)**	(3,237)
Tax effect of tax concessions	**—**	(7,935)
Over-provision in prior year	**(2,782)**	—
Dividend withholding tax	**530**	—
Others	**45**	—
Actual tax expenses	**13,942**	18,565

7 DIRECTORS' REMUNERATION

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

2008

	Fees	Salaries, allowances and other benefits	Contributions to retirement scheme	Sub-total	Share-based payments *(Note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr Yang Xin Min	—	1,617	3	1,620	189	1,809
Mr Li Fu Ping	—	252	3	255	71	326
Ms Huang Yue Qin	—	414	3	417	71	488
Mr Zhou Quan	—	210	3	213	71	284
Independent non-executive directors						
Mr Shi You Chun (up to 18 September 2008)	40	—	—	40	17	57
Mr Guo Jing Mao (up to 15 August 2008)	30	—	—	30	—	30
Mr Cheng Faat Ting Gary	71	—	—	71	17	88
Mr. Carl Steiss (from 15 August 2008)	22	—	—	22	17	39
Mr. Andrew Leinwand (from 15 August 2008)	22	—	—	22	17	39
Mr. Victor Tong (from 1 December 2008)	5	—	—	5	7	12
	190	2,493	12	2,695	477	3,172

7 DIRECTORS' REMUNERATION *(continued)*

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

2007

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

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.

Note:

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

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 26.

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2007: 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 (2007: one) individual are as follows:

	2008 **RMB'000**	2007 RMB'000
Salaries and other emoluments	**752**	608
Contributions to retirement benefit scheme	**11**	11
Share-based payments	**71**	—
	834	619

The emoluments of the one (2007: one) individual with the highest emoluments are within the following band:

	2008 ***Number of individuals***	2007 *Number of individuals*
Nil to $1,000,000	1	1

9 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB15,431,000 (2007: RMB4,186,000) 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:

	2008	2007
	RMB'000	*RMB'000*
Final dividend proposed after balance sheet date of HK6.0 cents per share (2007: HK2.0 cents per share)	**3,788**	13,377

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:

	2008	2007
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK2.0 cents per share (2007: HK2.8 cents per share)	**12,669**	15,374

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2008 was based on the profit attributable to equity shareholders of the Company for the year of RMB31,287,000 (2007: RMB61,464,000) and the weighted average number of shares in issue during the year ended 31 December 2008 of 71,214,591 (2007 (restated): 64,860,800).

The weighted average number of ordinary shares in 2008 and 2007 for the purposes of calculating the basic and diluted earnings per shares have been retrospectively adjusted for the consolidation of the shares on a 10 for 1 basis ("Share Consolidation") which took place on 30 June 2008.

11 EARNINGS PER SHARE *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity shareholders of the Company of RMB31,287,000 (2007: RMB61,464,000) and the weighted average number of shares in issue during the year after adjusting for the effect of potential dilutive shares, assuming they were exercised:

Weighted average number of shares (diluted):

	2008	2007
		(Restated)
	'000	*'000*
Weighted average number of shares	**71,215**	64,861
Effect of deemed issue of shares under the Company's share option scheme at consideration of HK$2.85 (2007: HK$0.80) per share	**—**	52
Weighted average number of shares (diluted)	**71,215**	64,913

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 expenditures are presented. In presenting information on the basis of geographical segments, segment revenue and segment results are presented 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	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**28,664**	46,477	**163,422**	162,146	**189,845**	240,844	**44,164**	47,316	**52,680**	44,727	**478,775**	541,510
Segment result	**4,593**	6,216	**40,052**	36,393	**42,668**	62,957	**10,576**	8,044	**14,106**	10,988	**111,995**	124,598
Unallocated operating income and expenses											**(57,515)**	(37,040)
Profit from operations											**54,480**	87,558
Net finance costs											**(9,645)**	(7,529)
Income tax											**(13,942)**	(18,565)
Profit for the year											**30,893**	61,464

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	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**434,742**	493,170	**101**	529	**27,387**	30,577	**16,545**	17,234	**478,775**	541,510
Segments assets	**416,284**	397,175	**8,371**	22,636	**46,064**	42,249	**40,150**	53,826	**510,869**	515,886
Unallocated assets									**368,965**	345,215
Total assets									**879,834**	861,101
Capital expenditure incurred during the year	**122,270**	73,801	**—**	—	**—**	2	**107**	274	**122,377**	74,077
Unallocated capital expenditure									**2,330**	2,386
Total capital expenditure									**124,707**	76,463

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 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
At 1 January 2008	113,201	222,777	1,600	4,861	342,439
Exchange adjustments	(300)	(407)	(25)	(14)	(746)
Additions	2,544	3,382	140	2,192	8,258
Transfer from construction in progress *(note 14)*	172	57,632	—	—	57,804
Disposals	(1,783)	—	—	—	(1,783)
At 31 December 2008	113,834	283,384	1,715	7,039	405,972

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

	The Group				
	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Accumulated depreciation and impairment loss:					
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
At 1 January 2008	21,535	51,148	1,291	2,478	76,452
Exchange adjustments	(2)	(5)	(15)	(1)	(23)
Charge for the year	3,942	12,311	128	899	17,280
Impairment loss *(Note (c))*	—	9,290	—	—	9,290
Written back on disposal	(213)	—	—	—	(213)
At 31 December 2008	25,262	72,744	1,404	3,376	102,786
Net book value:					
At 31 December 2008	88,572	210,640	311	3,663	303,186
At 31 December 2007	91,666	171,629	309	2,383	265,987

Note:

(a) All of the Group's buildings and machinery and equipment are located in the PRC and Indonesia.

(b) At 31 December 2008, the Group was still in the process of obtaining the relevant property ownership certificates of certain buildings in the PRC and Indonesia from the relevant government authorities, the carrying value of which amounted to approximately RMB14,932,000 (2007: RMB13,341,000).

(c) In 2008, a number of machines and equipment in the PRC manufacturing plants were physically idle as the productions of the relevant products ceased. The Group planned to dispose of those items but no active program has been initiated to locate the buyers. The Group assessed the recoverable amounts of those machines and equipment and wrote down the carrying amount by RMB9,290,000 (included in administrative expenses). The estimates of recoverable amount were based on the fair values less costs to sell.

14 CONSTRUCTION IN PROGRESS

	The Group	
	2008	2007
	RMB'000	*RMB'000*
At 1 January	**46,208**	2,637
Additions	**97,534**	56,820
Transfer to property, plant and equipment *(Note 13)*	**(57,804)**	(13,249)
At 31 December	**85,938**	46,208

Construction in progress as at 31 December 2008 comprises costs incurred on buildings under construction and plant and equipment under installation.

15 LEASE PREPAYMENTS

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Cost:		
At 1 January	**61,945**	61,945
Additions	**18,915**	—
At 31 December	**80,860**	61,945
Accumulated amortisation:		
At 1 January	**9,701**	8,350
Charge for the year	**1,505**	1,351
At 31 December	**11,206**	9,701
Net book value:		
At 31 December	**69,654**	52,244
Current portion	**(1,617)**	(1,351)
Non-current portion	**68,037**	50,893

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

16 INTANGIBLE ASSETS

The Group

	Technical know-how *RMB'000*
Cost:	
At 1 January 2007	4,200
Additions	145
At 31 December 2007	4,345
At 1 January and 31 December 2008	4,345
Accumulated amortisation:	
At 1 January 2007	2,741
Charge for the year	701
At 31 December 2007	3,442
At 1 January 2008	3,442
Charge for the year	729
At 31 December 2008	4,171
Net book value:	
At 31 December 2008	174
At 31 December 2007	903

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

17 INTERESTS IN SUBSIDIARIES

	The Company	
	2008	2007
	RMB'000	*RMB'000*
Unlisted shares, at cost	**31,707**	28,275
Amounts due from subsidiaries *(Note (i))*	**243,319**	274,982
	275,026	303,257

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 subsidiaries	Principal activity
Kingweston Technology Limited	British Virgin Islands ("BVI")	US$2,500,000	100%	—	Investment holding in Hong Kong
P.T. Asia Prima Resources	Indonesia	US$1,500,000	51%	—	Separation, processing and refining of zircon sand contracting and management of mining concession and the sale of zircon products
Binhai Dragon Crystal Chemicals Company Limited*	The PRC	US$8,994,784	—	100%	Research, development, manufacturing and sales of zirconium compounds
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

(Expressed in Renminbi unless otherwise stated)

17 INTERESTS IN SUBSIDIARIES *(continued)*

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 subsidiaries	Principal activity
Yixing Better Batteries Company Limted*	The PRC	US$4,200,000	—	100%	Research, development, manufacturing and sales of rechargeable batteries
Yixing Xinxing Zirconium Company Limited*	The PRC	US$13,100,000	—	100%	Research, development, manufacturing and sales of zirconium compounds, electronic materials, electronics ceramics and new energy materials

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

Note:

(i) The amounts due from subsidiaries as at 31 December 2007 and 2008 are unsecured, non-interest bearing and repayable on demand.

(ii) BHDC, YBBL and YXZL are Foreign Investment Enterprises established pursuant to the law of the PRC. YBBL and YXZL have an operating period of 30 years expiring on 4 January 2034 and 6 June 2030 respectively whereas BHDC has an operating period of 50 years expiring on 30 August 2057.

18 LONG-TERM PREPAYMENTS

As at 31 December 2008, the Group had made prepayments of RMB35,119,000 (2007: RMB59,689,000) 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	
	2008	2007
	RMB'000	*RMB'000*
Raw materials	**12,081**	39,642
Work in progress	**6,227**	8,407
Finished goods	**29,955**	16,709
	48,263	64,758

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

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**366,657**	416,912
Write-down of inventories	**897**	—
Reversal of write-down of inventories	**(774)**	—
	366,780	416,912

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

20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**34,566**	78,001	**—**	—
Less: Allowance for doubtful debts *(note 20(b))*	**(3,720)**	(1,730)	**—**	—
	30,846	76,271	**—**	—
Advance payments to suppliers	**16,657**	27,719	**—**	—
Deposits and prepayments	**2,121**	6,512	**—**	—
Dividend receivable	**—**	—	**12,341**	13,195
Other receivables	**3,057**	4,374	**248**	2,792
	52,681	114,876	**12,589**	15,987

(a) Ageing analysis

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

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Current	**21,015**	47,361
Less than 3 months past due	**8,897**	27,412
More than 3 months but less than 1 year past due	**286**	349
Over 1 year past due	**648**	1,149
Amounts past due	**9,831**	28,910
	30,846	76,271

Trade receivables are normally due within 30 to 90 days from the date of billing. Further details of the Group's credit policy are set out in note 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 2008, the Group's trade receivables of RMB4,125,000 (2007: RMB2,270,000) 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 RMB3,720,000 (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:

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Neither past due nor impaired	**21,015**	47,361
Less than 3 month past due	**8,897**	27,412
More than 3 months but less than 1 year past due	**286**	7
Over 1 year past due	**243**	951
	9,426	28,370
	30,441	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.

21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits with banks	**1,627**	24,459	**1,374**	1,509
Cash at bank and in hand	**276,776**	228,693	**142**	850
Cash and cash equivalents in the consolidated cash flow statement	**278,403**	253,152	**1,516**	2,359

As at 31 December 2008, cash and cash equivalents of RMB225,700,000 (2007: RMB224,003,000) 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**8,114**	10,438	**—**	—
Receipts in advance from customers	**1,913**	2,873	**—**	—
Payable for construction costs and acquisition of property, plant and equipment	**6,738**	4,898	**—**	—
Other payables and accruals	**37,402**	30,611	**3,383**	1,165
	54,167	48,820	**3,383**	1,165

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	
	2008	2007
	RMB'000	*RMB'000*
Within 3 months	**5,145**	8,176
3 months to 6 months	**1,723**	596
6 months to 1 year	**378**	320
Over 1 year	**868**	1,346
	8,114	10,438

24 INTEREST-BEARING BORROWINGS

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Bank loans	**6,832**	—
Trust receipt loans	**—**	12,249
	6,832	12,249

The bank loans as at 31 December 2008 carried interest at LIBOR plus 2%. The trust receipt loans as at 31 December 2007 bear interest at LIBOR plus 2% per annum. The Group's borrowings are repayable within one year.

At 31 December 2008, all of the Group's banking facilities are guaranteed by the Company. The banking facilities are subject to the fulfilment of covenants, as are commonly found in lending arrangements with financial institutions. The Group is required to maintain a net tangible worth of RMB700 million and the Company should maintain 100% beneficial controlling interest in certain PRC subsidiaries. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Company regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 30(b). As at 31 December 2008 and 2007, none of the covenants relating to drawn down facilities had been breached.

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 RMB6,832,000 (2007: RMB12,249,000). 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 also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000.

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

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.

During the year ended 31 December 2008, 310,000 (2007: 5,500,000 before the Share Consolidation) options have been granted under the Scheme. The options vest immediately from the date of grant and are then exercisable within a period of five years.

(Expressed in Renminbi unless otherwise stated)

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 options
Options granted to executive directors:			
— on 15 August 2008	170,000	Immediate	5 years
Options granted to independent non-executive directors:			
— on 15 August 2008	40,000	Immediate	5 years
— on 1 December 2008	10,000	Immediate	5 years
Options granted to employees:			
— on 15 August 2008	30,000	Immediate	5 years
Options granted to third-party consultants:			
— on 15 August 2008	60,000	Immediate	5 years

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

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

	2008		2007	
	Weighted average exercise price	**Number of options** *'000*	Weighted average exercise price	Number of options *'000*
Outstanding at the beginning of the year	**—**	**—**	—	—
Granted during the year	**HK$6.48**	**310**	HK$0.80	5,500
Exercised during the year	**—**	**—**	HK$0.80	(5,500)
Outstanding at the end of the year	**HK$6.48**	**310**	—	—
Exercisable at the end of the year	**HK$6.48**	**310**	—	—

No share option was exercised during the year. In 2007, the weighted average share price of the share options at the date of exercise was HK$0.80.

The options outstanding at 31 December 2008 had an exercise price of HK$6.60 or HK$2.85 and contractual life of 5 years. 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.

	2008	2007 Date of grant (12 February 2007)	2007 Date of modification (28 March 2007)
Fair value of share options and assumptions			
Fair value at measurement date	**HK$0.80-HK$2.36**	HK$0.06	HK$0.13
Weighted average share price	**HK$6.47**	HK$0.80	HK$0.86
Weighted average exercise price	**HK$6.48**	HK$0.80	HK$0.80
Expected volatility	**57%-66%**	53%	53%
Option life	**5 years**	1.5 months	4.5 months
Expected dividends	**2.06%**	2.69%	2.69%
Risk-free interest rate	**1.660%-2.915%**	3.780%	3.550%

The expected volatility is based on the historical 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 are the grant date of the options.

Share options were granted without condition and vested immediately.

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Provision for PRC income tax	**19,637**	31,921

(b) Deferred tax assets/(liabilities) recognised:

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

	Provisions	**Future benefit of tax losses**	**Dividend withholding tax**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:				
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
At 1 January 2008	1,981	1,256	—	3,237
Credited/(charged) to profit or loss *(note 6(a))*	2,663	346	(530)	2,479
At 31 December 2008	4,644	1,602	(530)	5,716

27 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(continued)*

(b) Deferred tax assets/(liabilities) recognised: *(continued)*

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Deferred tax assets recognised on the balance sheet	**6,246**	3,237
Deferred tax liabilities recognised on the balance sheet	**(530)**	—
	5,716	3,237

The Group has recognised deferred tax assets as at 31 December 2008 in respect of cumulative tax losses of RMB6,245,000 (2007: RMB5,026,000) arising from the subsidiaries in the PRC and Indonesia as the directors are of the opinion that future taxable profits against which the losses can be utilised will be available. The tax losses of those subsidiaries will expire in five years.

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets as at 31 December 2008 in respect of cumulative tax losses of HK$11,194,000 (equivalent to RMB10,856,000) and RMB2,471,000 (2007: HK$8,504,000 (equivalent to RMB8,463,000) and nil) arising from the subsidiaries in Hong Kong and the PRC, respectively, 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 entities. The tax losses of the subsidiary in Hong Kong do not expire under current tax legislation while those of the subsidiary in the PRC will expire in five years.

28 SHARE CAPITAL

(a) Authorised and issued share capital

		Nominal value of ordinary shares	
Authorised:	Number of shares	**2008**	2007
	'000	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.1 each at 1 January 2008	1,000,000	**100,000**	100,000
Consolidation of authorised share capital of every 10 shares of HK$0.1 each into one share of HK$1.0 each on 30 June 2008	(900,000)	**—**	—
Ordinary shares of HK$1.0 each at 31 December 2008	100,000	**100,000**	100,000

28 SHARE CAPITAL *(continued)*

(a) Authorised and issued share capital *(continued)*

	Note	No. of shares	Nominal value of ordinary shares	
			HK$'000	*RMB'000*
Issued and fully paid:				
1 January 2007		504,170,946	50,417	53,529
Issue of shares under placement:				
— on 11 January 2007	(b)(i)	60,000,000	6,000	5,982
— on 29 May 2007	(b)(i)	140,000,000	14,000	13,625
Shares issued under share option scheme	(c)	5,500,000	550	535
At 31 December 2007		709,670,946	70,967	73,671
1 January 2008		709,670,946	70,967	73,671
Share consolidation on 30 June 2008	(b)(ii)	(638,703,852)	—	—
Issue of shares under offering:				
— on 15 August 2008	(b)(iii)	649,900	650	571
At 31 December 2008		71,616,994	71,617	74,242

28 SHARE CAPITAL *(continued)*

(b) Issue of shares

(i) 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.

(ii) On 27 June 2008, a special meeting of shareholders of the Company was held during which the shareholders approved the Offering (as defined in (iii) below) and the 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.

(iii) On 15 August 2008, the Company completed the offering in respect of 649,900 ordinary shares pursuant to the terms of an agency agreement signed between the Company and four agents (the "Offering"). The offer price is CAD1.20 per share. Upon completion of the Offering, the Company has satisfied the listing conditions provided in the Toronto Stock Exchange ("TSX") listing conditional approval letter dated 28 May 2008 in connection with its listing in the TSX. The shares of the Company issued pursuant to the Offering were listed and posted for trading at the TSX on 15 August 2008.

Net proceeds from such issue amounting to CAD88,644 (equivalent to RMB571,190) after offsetting listing expenses of RMB4,454,000 was wholly recorded in share capital, while the entire share premium arising from the Offering of RMB4,454,000 was fully reduced by the listing expenses directly attributable to the Offering.

(c) 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 (equivalent to RMB4,275,000) of which HK$550,000 (equivalent to RMB534,000) was credited to share capital and the balance of HK$3,850,000 (equivalent to RMB3,741,000) was credited to share premium account. HK$690,000 (equivalent to RMB670,000) was 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. No share options have been exercised during the year.

29 RESERVES AND ACCUMULATED LOSSES

(a) The Company

	Share premium (note (b)) RMB'000	Capital reserve (note (b)) RMB'000	Exchange reserve (note (b)) RMB'000	Sub-total RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2007	132,870	—	(8,612)	124,258	(7,320)	116,938
Equity settled share-based payments	—	670	—	670	—	670
Issue of shares under placement, net of issuance costs	163,450	—	—	163,450	—	163,450
Issue of shares under share option scheme	4,411	(670)	—	3,741	—	3,741
Exchange differences on translation of financial statements of the Company	—	—	(18,599)	(18,599)	—	(18,599)
Loss for the year *(note 9)*	—	—	—	—	(4,186)	(4,186)
Dividend paid	(15,374)	—	—	(15,374)	—	(15,374)
At 31 December 2007	285,357	—	(27,211)	258,146	(11,506)	246,640
At 1 January 2008	285,357	—	(27,211)	258,146	(11,506)	246,640
Equity settled share-based payments	—	637	—	637	—	637
Exchange differences on translation of financial statements of the Company	—	—	(19,729)	(19,729)	—	(19,729)
Loss for the year *(note 9)*	—	—	—	—	(15,431)	(15,431)
Dividend paid	(13,377)	—	—	(13,377)	—	(13,377)
At 31 December 2008	271,980	637	(46,940)	225,677	(26,937)	198,740

29 RESERVES AND ACCUMULATED LOSSES *(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 or estimated number of unexercised share options granted by the Company recognised in accordance with the accounting policy adopted for share-based payments in note 1(p).

(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.

29 RESERVES AND ACCUMULATED LOSSES *(continued)*

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

(vi) Distributable reserves

The aggregate amount of distributable reserves of the Company at 31 December 2008 was HK$237,341,000 (2007: HK$268,883,000).

(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 optimal capital structure to reduce the cost of capital.

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

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

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain sufficient capital to cover any net debt position by adjusting the amount of dividends paid to shareholders or issue new shares. The net debt-to-equity ratio as at 31 December 2008 and 2007 are 10.6% and 10.1% respectively.

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

(i) Trade and other receivables

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 balances that are more than three months past due 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 46% (2007: 20%) and 71% (2007: 60%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2008 respectively. The Group does not hold any collateral over these balances.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. 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.

(ii) Deposits with bank

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

As at 31 December 2008, the Group has a certain concentration of credit risk as 80.3% of total cash and cash equivalents were deposited at one of the four largest financial institutions in the PRC with high credit rating.

(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

	2008			2007		
	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*
Trade and other payables	**54,167**	**54,167**	**54,167**	48,820	48,820	48,820
Amounts due to related parties	**10,185**	**10,185**	**10,185**	1,347	1,347	1,347
Interest-bearing borrowings	**6,832**	**6,878**	**6,878**	12,249	12,303	12,303
	71,184	**71,230**	**71,230**	62,416	62,470	62,470

The Company

	2008			2007		
	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	**3,383**	**3,383**	**3,383**	1,165	1,165	1,165
Amounts due to related parties	**12,236**	**12,236**	**12,236**	127	127	127
	15,619	**15,619**	**15,619**	1,292	1,292	1,292

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 interest-earning financial assets and interest-bearing financial liabilities at the balance sheet date:

The Group

	2008		2007	
	Effective interest rate %	***RMB'000***	Effective interest rate %	*RMB'000*
Variable rate instruments:				
Interest-bearing borrowings	**3.26**	**(6,832)**	6.04	(12,249)
Cash and cash equivalents	**0.25**	**278,403**	0.55	253,152
Total		**271,571**		240,903

The Company

	2008		2007	
	Effective interest rate %	***RMB'000***	Effective interest rate %	*RMB'000*
Cash and cash equivalents at variable rate	**1.19**	**1,516**	1.03	2,359

30 FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2008, 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 for the year and retained profits by approximately RMB2,716,000 (2007: RMB2,409,000).

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 2007.

(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 (expressed in Renminbi'000)			
	2008		2007	
	Canadian Dollars *RMB'000*	**United States Dollars** *RMB'000*	Canadian Dollars *RMB'000*	United States Dollars *RMB'000*
Cash and cash equivalents	**1,427**	**49,675**	—	22,239
Trade and other receivables and prepayments	**—**	**16,538**	—	55,647
Trade and other payables	**—**	**(468)**	—	(789)
Overall net exposure	**1,427**	**65,745**	—	77,097

30 FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(i) Exposure to currency risk *(continued)*

	The Company (expressed in Renminbi'000)	
	2008 United States Dollars *RMB'000*	2007 United States Dollars *RMB'000*
Cash and cash equivalents	**—**	409
Trade and other receivables and prepayments	**—**	1,463
Overall exposure	**—**	1,872

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit for the year (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.

	2008		2007	
	Increase/ (decrease) in foreign exchange rates %	**Effect on profit for the year increase/ (decrease) *RMB'000***	Increase/ (decrease) in foreign exchange rates %	Effect on profit for the year increase/ (decrease) *RMB'000*
United States dollars	**5%**	**3,287**	5%	3,840
	(5)%	**(3,287)**	(5)%	(3,840)
Canadian dollars	**5%**	**71**	5%	—
	(5)%	**(71)**	(5)%	—

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

30 FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis *(continued)*

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial assets/liabilities held by the Group which expose the Group to foreign currency at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2007.

(e) Commodity price risk

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

(f) Fair values

All financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 December 2008.

31 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2008 not provided for in the financial statements are as follows:

	The Group	
	2008	2007
	RMB'000	*RMB'000*
Contracted for	**25,562**	37,526
Authorised but not contracted for	**37,452**	111,128
	63,014	148,654

(b) At 31 December 2008, the Group had a commitment of US$765,000 (2007: US$1,530,000) equivalent to RMB5,261,000 (2007: RMB11,176,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

(c) Operating leases

At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company	
	2008	2007
	RMB'000	*RMB'000*
Within 1 year	**347**	637
After 1 year but within 5 years	**—**	371
	347	1,008

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

	Note	2008 RMB'000	2007 RMB'000
Water supply from related parties	(i)	**1,975**	2,053

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.

(b) Non-recurring transactions

For the year ended 31 December 2008, the Group had the following significant transactions with a related party:

	2008 RMB'000	2007 RMB'000
Purchase of property, plant and equipment	**2,552**	—

32 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

	Note	2008 RMB'000	2007 RMB'000
Amount due from related parties			
— Yang Zhen	(i) and (iv)	**75**	47
— Directors of the Company	(i)	**95**	—
		170	47
Amounts due to related parties:			
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (ii)	**(1,138)**	(1,138)
— Directors of the Company	(i)	**(8,539)**	(209)
— Yixing City Xushe Water Supply Plant	(i) and (iii)	**(508)**	—
		(10,185)	(1,347)

Notes:

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

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

(iii) The party is related to the extent that Ms Bao Xi Mei (being the spouse of a director of the Group), is the legal representative of the Yixing City Xushe Water Supply Plant.

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

(d) Key management personnel remuneration

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

	2008 RMB'000	2007 RMB'000
Short-term employee benefits	**4,005**	3,216

Total remuneration is included in "staff costs" (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 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 inventories that are obsolete or with costs higher than net realisable value. 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, and are reversed to the extent that it is no longer probable that sufficient taxable profits will be available for utilisation, which involves considerable level of estimation and judgement exercised by management.

34 NON-ADJUSTING POST-BALANCE SHEET EVENTS

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 2008

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 2008 and which have not been adopted in these financial statements.

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

The following developments are 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 of Annual General Meeting

NOTICE IS HEREBY GIVEN that an annual general meeting (the "Annual General Meeting") of the Company will be held at Suite 2611, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong on Friday, 15 May 2009 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 2008.

2. To declare a final dividend.

3. (a) To re-elect Mr. Andrew Leinwand as a director of the Company.

   (b) To re-elect Mr. Carl Steiss as a director of the Company.

   (c) To re-elect Mr. Victor Tong 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 (as defined below) to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period (as defined below);

(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. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as a special resolution of the Company:

   "**THAT** the articles of association of the Company be and are hereby amended in the following manners:

   (a) by deleting the words "not exceeding in the whole thirty (30) days in each year" after the words "for such periods" and inserting in its place the words "not exceeding in the whole ninety (90) days in each year" in substitution therefor in the tenth line of Article 44;

   (b) by deleting the words "not more than thirty (30) days" after the words "or at any time" and inserting in its place the words "not more than forty-five (45) days" in substitution therefor in the second line of Article 45(a)."

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

By Order of the Board
Li Mei Kuen
Company Secretary

Hong Kong, 9 April 2009

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 20 April 2009 (Monday) to 15 May 2009 (Friday), 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 either (i) the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or (ii) the Company's branch share registrar in Canada, Computershare Investor Services Inc., 100 University Ave., 9th Floor, Toronto, Ontario, M5J 2Y1, for registration not later than 4:30 p.m. on 17 April 2009 (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 with either (i) the Company's branch share registrar in Hong Kong or (ii) the Company's branch share registrar in Canada not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. An explanatory statement containing further information on the above Resolution 5B is set out in Appendix I to the Company's circular to shareholders dated 9 April 2009.