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

(formerly known as China Zirconium Limited)
(Incorporated in the Cayman Islands with limited liability)

(HKEX - Stock Code: 0395)

2009 Annual Report

* For identification purposes only

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Yang Xin Min *(Chairman)*
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Li Fu Ping
Mr. Fang Guo Hong (Appointed on 23 November 2009)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheng Faat Ting Gary, CPA, HKICPA
Prof. Ji Chang Ming (Appointed on 22 December 2009)
Mr. Poon Lai Yin Michael (Appointed on 29 January 2010)
Mr. Andrew Leinwand (Resigned on 1 June 2009)
Mr. Carl Steiss (Resigned on 22 December 2009)
Mr. Victor Tong (Resigned on 29 January 2010)

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

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

AUDITORS

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON, M5H 2S5
Canada

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
China Construction Bank
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

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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
Toronto, Ontario M5J 2Y1
Canada

STOCK NAME

Sino Dragon

STOCK CODE

Hong Kong Stock Exchange: 395

Financial Summary

	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**126,108**	478,775	541,510	446,719	425,767
Gross profit margin *(%)*	**-16%**	23%	23%	25%	25%
(Loss)/Profit attributable to shareholders	**(296,430)**	31,287	61,464	57,797	61,886
EBIT	**(395,655)**	45,146	81,206	78,712	73,224
EBITDA	**(374,551)**	64,660	98,485	95,842	87,921
Dividends — ordinary shares	**n/a**	3,788	13,377	15,857	17,303
(Loss)/Earnings per share* (restated)					
— basic *(RMB)*	**(0.238)**	0.022	0.048	0.058	0.062
(Loss)/Earnings per share* (restated)					
— diluted *(RMB)*	**(0.238)**	0.022	0.048	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 *(%)*	**n/a**	12%	22%	27%	28%
Ordinary shares*					
(restated after Share Subdivision) *(shares)*	**1,621,939,880**	1,432,339,880	1,419,341,880	1,008,341,880	1,008,341,880
Bank and cash balance	**230,136**	278,403	253,152	165,718	140,220
Cash per share* (restated) *(RMB)*	**0.14**	0.20	0.18	0.16	0.14
Total assets	**586,002**	879,834	861,101	659,814	610,210
Net asset value	**514,696**	788,483	766,764	537,132	495,922
Net asset value per share* (restated) *(RMB)*	**0.32**	0.55	0.54	0.53	0.49
Inventory turnover days	**96 days**	56 days	52 days	49 days	56 days
Debtors turnover days	**85 days**	43 days	44 days	39 days	34 days
Creditors turnover days	**30 days**	11 days	12 days	30 days	22 days

* The figures for 2005 to 2008 presented in the table above have been restated to take into account the 1 to 20 share subdivision ("Share Subdivision") which took effect from 9 November 2009.

Corporate Profile

Sino Dragon New Energy Holdings Limited (the "Company" or 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 China Zirconium Limited, changed to its current name on 12 October 2009 in order to signify the potential diversification of the Company's business into new energy-related business. 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) 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 operated a newly established 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 31 years, 19 years and 20 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. During the period from 2003 to 2008, Mr. Yang had taken up various roles, including Chairman, Vice Chairman and expert team member, in the committee of "China Nonferrous Metals Association - Titanium, Zirconium and Hafnium Branch" (中國有色金屬協會 — 鈦鋯鉿分會). 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.

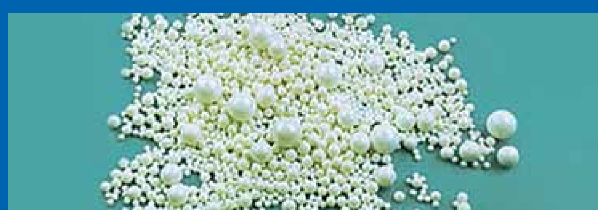
Chairman's Statement

Chairman's Statement

On behalf of the Board of Directors (the "Board") of the Company, I herein present the annual results of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2009 to the shareholders of the Company.

2009 is an exceptional year for the Company. Although the capital market and commodity market were apparently rebounding in 2009, in reality many industries were still facing tough operating environment. The zirconium chemicals market has not recovered but instead its demand and prices continued to drop and lingered at the low points in 2009. The Company's turnover decreased by 74% as compared to prior year, mainly attributable to the economic depression in the Company's overseas market (including United States, Japan and the Netherland/Europe) which led to the significant decrease in demand for zirconium chemicals. Decline in orders resulted in the under-utilisation of the Company's capacity and an increase in the fixed costs of zirconium chemical products. With the additional effect of the decrease in product selling prices, the Company for the first time reported a gross loss. Encountering the difficult situation in 2009, the Company adopted a proactive yet prudent business strategy including the reduction in inventory level of finished goods so as to avoid operating losses brought about by fluctuations in market prices. On the other hand, the Group's rechargeable batteries business developed steadily and reported a profit for year 2009. Management expected the sales of high temperature batteries to expand in 2010 which will have positive contribution to the Company's results in 2010.

In the capital market, the Company was dual listed on the Toronto Stock Exchange ("TSX") in Canada since August 2008. However, the economic recession driven by the global financial crisis hindered the Company's fund raising plan in Canada. After the Board's due and careful consideration, it was concluded that the compliance costs and administrative burden in maintaining the listing of Shares on the TSX were relatively significant but it has not resulted in the expected benefit for Shareholders. Hence the Company decided to apply for the voluntary delisting from the TSX, which had been approved to take effect from the close of trading on the TSX on 30 September 2009. The Company's listing status on the Main Board of the Hong Kong Stock Exchange remains unchanged.



Chairman's Statement

In October 2009, the Company's name was changed from "China Zirconium Limited" to "Sino Dragon New Energy Holdings Limited". This signified the potential diversification of the Company's business into new energy related projects. The Company is actively seeking for potential investment opportunities, which included the signing of letters of intent with independent third parties in December 2009 and in March 2010, respectively, pursuant to which the Company intended to acquire a Shanxi company engaging in the development of power generation with coal plant waste gas and a Danyang company ("Danyang Project") engaging in the manufacture and sales of trichlorosilane and polysilicon materials. To protect the interests of Shareholders, the Company has retained various professional institutions to conduct due diligence. While the due diligence is still undergoing, the Management has performed a preliminary assessment of the currently available information and data. It is noted that there is an enormous demand for polysilicon materials by the solar energy enterprises in Mainland China and according to statistics, over 50% of such demand were satisfied by import. This indicated that the quality and cost of the PRC existing polisilicon products are not yet up to a standard comparable to the overseas producers. Given this factor, the local polysilicon manufacturers are establishing considerable capacities yet unable to completely replace the imported polysilicon products in the local PRC market. The Group believed that if a polysilicon project is promising in the production of polysilicon products which are high quality and with high cost-efficiency, it can strive to seize the share of the imported polysilicon products in the PRC market. Moreover, since the PRC government policies encourage and support the use of green energy including solar power, which will boost the rapid growth in market demand, it is anticipated that the polysilicon products will have considerable growth potential in the PRC market. The Board believed that the potential acquisition of Danyang Project will be beneficial to the Group in terms of diversification in business, expansion of income sources as well as development in the solar power industry. Therefore, the Group is intended to put the acquisition of Danyang Project as one of the Group's top priorities in the first half year of 2010. We will strive to finalise and complete the acquisition as soon as possible, so as to generate contributions to the Group.

Looking forward to 2010, I and the Board will continue to dedicate incessant efforts in attaining the Group's goal of diversifying into new energy business, expanding income streams and improving profitability. Additionally, the Group will consolidate the existing foundation in zirconium chemicals and rechargeable batteries businesses through restructuring the resource allocation in a more efficient manner, so as to recover the good performance in the Company's results.

Lastly, on behalf of the Board, I wish to thank our Shareholders and customers for their continuing support to us, and our staff for their dedication and contribution to the Company. With challenges and opportunities ahead, I will continue to work together with my colleagues, striving to attain better returns to the Shareholders in the coming year.

Yang Xin Min
Chairman

INDUSTRY REVIEW

Year 2009 was a challenging year for manufacturing industry. The global financial crisis led to a recession in most countries in 2009. What started out as a credit crisis in the financial sector quickly spilled over into a broad contraction in industrial production and trade. The recession was particularly hard on the manufacturing industry. Because the credit crunch caused a shortfall in the availability of trade-related credit instruments, it led to a slump in export trade and so hit some manufacturers hard. Zirconium chemicals industry is one of the typical examples of manufacturing businesses which was hit hard by the global recession. Market demand and selling prices of zirconium chemicals dropped significantly during the year and lingered at the low points. As many customers of zirconium chemicals, which were themselves manufacturers of various products, have scaled down their productions, their demand for zirconium chemicals suffered a consequential decline. Some overseas manufacturers had adopted a more stringent inventory policy and cutback their inventory level, and they were primarily surviving on the zirconium chemicals materials which were in stock since 2008 and did not place new orders for zirconium chemicals throughout the first half year of 2009. Although some customers resumed orders in the second half year of 2009, sales of zirconium chemicals were far below the level back in the last two years.

On the supply side, zircon sand was in excess supply in 2009 due to the significant drop in the usage of zircon sand in zirconium chemicals production as well as in other industries. Price of zircon sand had also dropped, which had also driven a price decrease for zirconium chemical products.

BUSINESS REVIEW

Same as many other manufacturers, the Group's business suffered a big hit by the global recession in 2009. The Group's consolidated turnover dropped by 74% as compared to 2008 and it reported a gross loss for the first time in its operating history. The significant reduction in consolidated turnover was mainly attributable to the cutback in zirconium chemical sales. As most of the Group's zirconium chemicals were sold to overseas countries including the United States, Japan and European countries, the manufacturing recession in these countries had significant negative impact on the Group's zirconium business. Encountering the problem of capacity under-utilisation, the Company's zirconium chemicals products absorbed exceptionally high fixed overheads which were not compensated by any increase in selling prices. Consequently, the gross margin dropped sharply to the extent that it became negative for the year. The declining zirconium chemical market had indirectly affect the market of zircon sand, that is the major raw material for zirconium chemicals. Facing the unfavorable market condition for zircon sand and the unstable supplies of mineral concentrate in Indonesia, the management has decided to temporarily suspend the operation of the zircon sand processing plant owned by the Group's Indonesian joint venture in December 2009, to avoid incurring further operating loss in this segment. Following that, the zircon sand processing plant area were sealed off by the local government authority in late December 2009, pending for the investigation of certain mineral supplies being made to the plant by suppliers without proper mining license. As at the date of this report, the Group is not aware of any indication of potential litigation against the joint venture or the Group in respect of this matter. As the Group is uncertain on when the joint venture will resume access to the zircon sand processing plant, the management decided to make a full provision for the impairment losses of the assets of the joint venture as at 31 December 2009.

For the rechargeable batteries business, the Group also reported a decrease in sales in 2009 but there was an improvement in the gross margin from -1% in 2008 to 21% in 2009. The rechargeable batteries segment results also turned from a net loss in prior year to a net profit in 2009. The management expected the batteries segment to have steady improvement in results performance in the coming year.

OUTLOOK

Looking ahead, the Group is optimistic in the market growth potential of zirconium chemicals, in particular for the high-end products for application in motor vehicle tail gas purification and in nuclear power industry. Given the global refocus on promoting nuclear power and the European Union's progressive introduction of increasingly stringent standards on motor vehicles emission, the management believed that the demand for zirconium chemicals in these two applications will report considerable growth in the long run. Capitalising on our solid foundation in production technology, the Group's strategy will focus on further developing and penetrating into the high-end zirconium chemical products market. At the same time, the Group will proactively yet prudently diversify into new energy-related business. We will strive to finalise the potential acquisition project as soon as possible, so as to contribute to the Group's results.

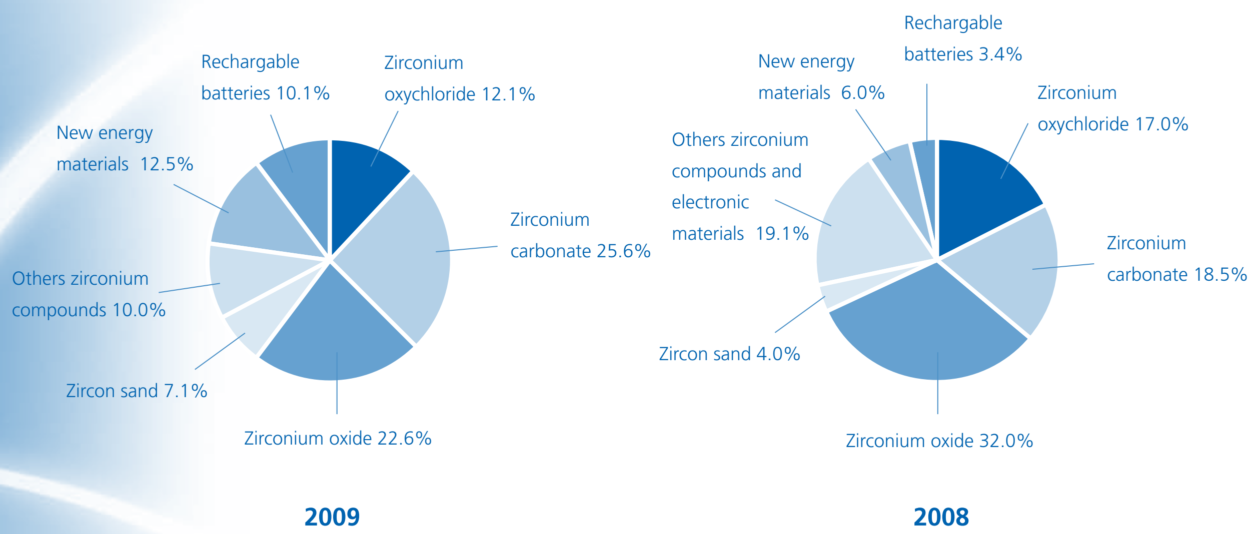
FINANCIAL REVIEW

For the year ended 31 December 2009, the Group reported a consolidated turnover of RMB126,108,000, represented a year-to-year decline by 74%. Gross margin dropped from 23% in 2008 to a negative gross margin of 16% in 2009. The decrease in gross margin was mainly attributable to the under-utilization of production capacities which in turns increased the fixed cost per unit, and the decrease in selling prices of the Company's products.

The Group reported a net loss for the year of RMB302,236,000, primarily resulted from the impairment provision made for certain assets during the year, amounted to RMB342,519,000. Such provision was merely accounting adjustment which did not involve actual cash outflow. The Group continued to maintain a healthy financial position with net cash balance and nil debt.

Turnover analysis by product category

The charts below are a comparison of the proportion of the Group's turnover by product categories for the year ended 31 December 2009 and 31 December 2008:



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

As over half of the Company's sales were exports to the overseas markets including US, Japan and the Netherland (Europe), the economic downturn in these countries has significantly affected the Company's zirconium chemicals business in 2009. In this challenging environment, the Company's sales of zirconium chemicals for the year under review was RMB97,611,000 (2008: RMB434,742,000). Sales of zirconium oxides and zirconium carbonate remain as the two major products which in total contribute almost half of the Group's consolidated turnover.

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 RMB15,724,000 (2008: RMB27,387,000) and sales of rechargeable batteries was RMB12,773,000 (2008: RMB16,545,000), representing a decrease of 43% and 23% respectively.

Gross Profit and Gross Margin

The Group reported a gross loss of RMB20,577,000 (2008: gross profit of RMB111,995,000) and a negative gross margin of 16% (2008: gross margin of 23%).

Capital Expenditure

The capital expenditures for the year ended 31 December 2009 and 2008 were approximately RMB80,418,000 and RMB124,707,000, respectively. The significant amount of capital expenditure in 2008 was mainly for the construction of the Binhai new plant and the zircon separation facilities in Indonesia. In 2009, the Group did not carry out any large scale construction or capacity expansion. Hence, capital expenditure decreased by 36% as compared to prior year. The significant decrease in the carrying value of the property, plant and equipment as at 31 December 2009 was primarily due to the impairment provision of RMB243,039,000 that was made during the year.

Liquidity and Financial Resources

As at 31 December 2009, the Group's bank and cash balances were approximately RMB230,136,000 (2008: RMB278,403,000). The Group continued to maintain a strong and healthy financial structure with no debt.

The Group's trade receivables turnover days increased from 43 days in 2008 to approximately 85 days in 2009. Although the trade receivables turnover days increased significantly in current year, 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 2009 decreased by approximately 37% to RMB30,301,000 (2008: RMB48,263,000), which mainly represented by the reduced level of finished goods that was kept by the Company. Inventory turnover days increased from 56 days to 96 days, mainly resulted from the significant drop in sales activities during the year. Management will continue to closely monitor the inventory level.

Management Discussion and Analysis

Share Capital Structure

In the Extraordinary General Meeting held by the Company on 6 November 2009, the Company's shareholders passed a resolution which approved the 1 to 20 share subdivision of the Company and it took effect from 9 November 2009.

As at 31 December 2009, the total issued share capital of the Company was HK$81,096,994 (approximately equivalent to RMB82,598,000) divided into 1,621,939,880 ordinary shares with a par value of HK$0.05 each.

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 2009, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2009, the Group did not pledge any assets (2008: Nil) as securities for the banking facilities granted by its bankers.

Human Resources

As at 31 December 2009, the Group had a total of approximately 618 employees (2008: 735 employees). Total staff costs (including directors' emoluments) for the year was approximately RMB20,568,000 (2008: RMB23,383,000), representing 16% of the Group's turnover (2008: 5%). The number of employees decreased mainly because of the scale down of production during the year. 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.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yang Xin Min, aged 60, 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.

Ms. Huang Yue Qin, aged 41, 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 51, 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 40, 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.

Mr. Fang Guo Hong, aged 44, was appointed as an executive director and the Chief Operating Officer of the Company in November 2009. Mr. Fang has nearly 20 years of experience in different companies engaging in manufacturing of various products, including insulation materials and fire-proof, wear-resistant materials mainly for use in power generating systems. He was also actively involved in the development of power industry wearable technology and has established a good network with the participants in the power industry in China. Mr. Fang was an executive director of Pan Asia Environmental Protection Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, during the period from March 2007 to March 2009.

Profile of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheng Faat Ting Gary, aged 41, 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.

Professor ("Prof.") Ji Chang Ming, aged 54, was appointed as an independent non-executive director of the Company in December 2009. Prof. Ji has over 30 years of experience in research and development of "Hydrology and Water Resources" specialty. Prof. Ji was graduated in 1978 at Wuhan University of Hydraulic and Electrical Engineering ("WUHEE", now known as Wuhan University), major in hydropower station dynamic system specialty. He continued his study in WUHEE and obtained his master degree and doctor's degree in hydrology and water resources in 1983 and 1988, respectively. Prof. Ji completed his postdoctoral research in the Department of Land, Air and Water Resources at University of California, Davis in 1990. Upon his return to China in 1990, Prof. Ji started to teach in WUHEE as associate professor. During the period from 1993 to 2004, Prof. Ji held various posts in WUHEE and Wuhan University including professor, PhD supervisor and a number of faculty management positions. Prof. Ji is currently a professor and PhD supervisor in the Renewable Energy School of North China Electric Power University. He is also a supervisor of the PhD program (part-time basis) in Wuhan University. In addition, Prof. Ji is also acting as the executive or vice chairman or committee member for 4 academic societies (including the China Society of Natural Resources), the editorial committee member of 3 major journals (including Journal of Hydroelectric Engineering), and the judging panel expert of The State Science and Technology Awards, etc.

Mr. Poon Lai Yin, Michael, aged 38, was appointed as an independent non-executive director of the Company in January 2010. Mr. Poon had acted as the Chief Financial Officer in two companies listed on the Growth Enterprise Market of the Stock Exchange since 2002, and was mainly responsible for the overall financial management, internal control function and accounting function. Mr. Poon has over 14 years of experience in financial reporting, business advisory, auditing, taxation, accounting, merger and acquisition. Mr. Poon is a fellow member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He holds a bachelor degree in administrative studies with York University in Canada and a master degree in practicing accounting with Monash University in Australia. Mr. Poon had been working for an international accounting firm and was responsible for providing business advisory and assurance services for some listed clients. Mr. Poon is the independent non-executive director of The Quaypoint Corporation Limited (Stock code: 2330) and Sun International Group Limited (Stock Code: 8029) since November 2006 and September 2008, respectively.

SENIOR MANAGEMENT

Ms. Li Mei Kuen, aged 41, 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 42, 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 41, 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 Report

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 five Executive Directors and three Independent Non-executive Directors ("INEDs"):

Executive Directors	:	Mr. Yang Xin Min (Chairman)
		Ms. Huang Yue Qin
		Mr. Zhou Quan
		Mr. Li Fu Ping
		Mr. Fang Guo Hong (Appointed on 23 November 2009)
INEDs	:	Mr. Cheng Faat Ting Gary
		Prof. Ji Chang Ming (Appointed on 22 December 2009)
		Mr. Poon Lai Yin Michael (Appointed on 29 January 2010)

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 over one-third of the Board membership.

Biographies of all Directors are set out on pages 13 to 14.

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 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 around 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, 3 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	3/3
Ms. Huang Yue Qin	3/3
Mr. Zhou Quan	3/3
Mr. Li Fu Ping	3/3
Mr. Fang Guo Hong (Appointed on 23 November 2009)[1]	0/0
Mr. Cheng Faat Ting Gary	3/3
Prof. Ji Chang Ming (Appointed on 22 December 2009)[1]	0/0
Mr. Poon Lai Yin Michael (Appointed on 29 January 2010)[1]	0/0
Mr. Andrew Leinwand (Resigned on 1 June 2009)[1]	2/3
Mr. Carl Steiss (Resigned on 22 December 2009)[1]	3/3
Mr. Victor Tong (Resigned on 29 January 2010)[1]	3/3

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 three INEDs, with two of them possess recognised accounting professional qualifications in Hong Kong or overseas.

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 three 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 2008;

— 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 2010. The recommendation will be put forward for the approval of the shareholders of the Company at the Annual General Meeting to be held on 27 May 2010.

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 2009, the Company's external auditors received approximately RMB1,843,000 for annual audit service and approximately RMB343,000 for non-audit services (including mainly the transaction advisory service) during the year.

(b) Remuneration Committee

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

Mr. Cheng Faat Ting Gary *(Chairman)*
Mr. Yang Xin Min
Prof. Ji Chang Ming (Appointed on 22 December 2009)
Mr. Carl Steiss (Resigned on 22 December 2009)

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 Faat Ting Gary *(Chairman)*
Prof. Ji Chang Ming (Appointed on 22 December 2009)
Mr. Poon Lai Yin Michael (Appointed on 29 January 2010)
Mr. Andrew Leinwand (Resigned on 1 June 2009)
Mr. Carl Steiss (Resigned on 22 December 2009)

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:

Directors	No. of meetings attended Audit Committee	 Remuneration Committee	 Nomination Committee
Mr. Yang Xin Min	N/A	1/1	N/A
Mr. Cheng Faat Ting Gary	3/3	1/1	1/1
Mr. Andrew Leinwand (Resigned on 1 June 2009)[1]	1/2	N/A	0/0
Mr. Carl Steiss (Resigned on 22 December 2009)[1]	3/3	1/1	1/1
Mr. Victor Tong (Resigned on 29 January 2010)[1]	3/3	N/A	N/A
Prof. Ji Chang Ming (Appointed on 22 December 2009)[1]	0/0	0/0	0/0
Mr. Poon Lai Yin Michael (Appointed on 29 January 2010)[1]	0/0	N/A	0/0

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 34 to 35.

INTERNAL CONTROLS

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairmans of the Board, of the Audit Committee and of the Remuneration Committee are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 20 business days before the annual general meeting. It sets out the procedures for 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 2008 and Interim Report 2009 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 2009 (the "Year") are set out in the consolidated income statement on page 36.

The Board does not recommend the payment of a final dividend for the Year (2008: final dividend of HK$0.06 per ordinary share).

The register of members of the Company will be closed from 25 May 2010 (Tuesday) to 27 May 2010 (Thursday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the Company's annual general meeting to be held on 27 May 2010, 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 24 May 2010 (Monday):

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 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 27 to the financial statements.

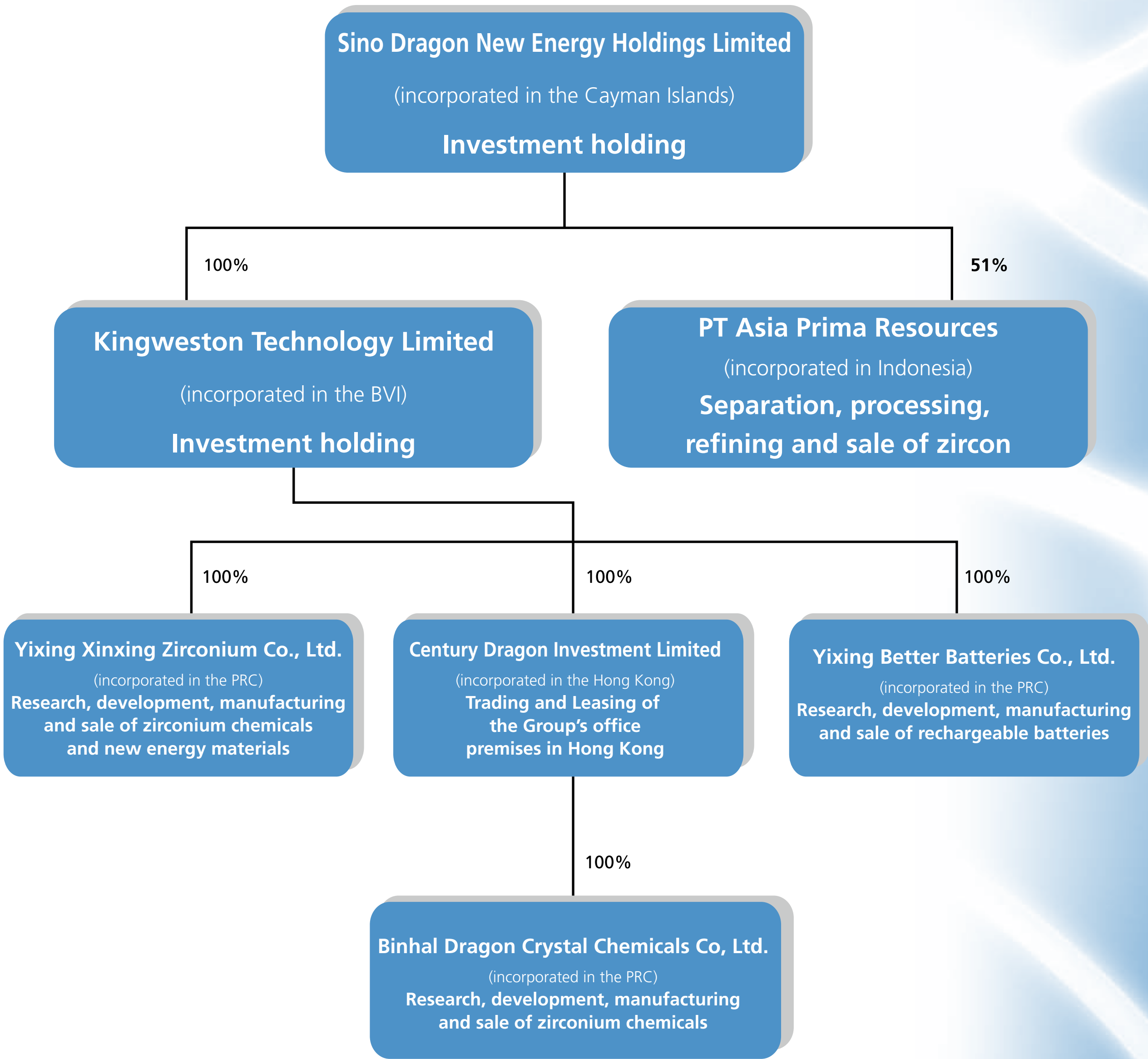
RESERVES

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 42.

DISTRIBUTABLE 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 2009 amounted to approximately RMB236,260,000 (2008: RMB245,043,000).

GROUP STRUCTURE



Directors' Report

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 13 to 14.

Executive Directors

Mr. Yang Xin Min, Chairman and Managing Director
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Li Fu Ping
Mr. Fang Guo Hong (Appointed on 23 November 2009)

Independent Non-Executive Directors

Mr. Cheng Faat Ting Gary
Prof. Ji Chang Ming (Appointed on 22 December 2009)
Mr. Poon Lai Yin Michael (Appointed on 29 January 2010)
Mr. Andrew Leinwand (Resigned on 1 June 2009)
Mr. Carl Steiss (Resigned on 22 December 2009)
Mr. Victor Tong (Resigned on 29 January 2010)

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 2009, 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	577,741,880	35.62%
Huang Yue Qin	Beneficial	Personal	600,000	0.03%
Zhou Quan	Beneficial	Personal	600,000	0.03%
Li Fu Ping	Beneficial	Personal	600,000	0.03%
Cheng Faat Ting Gary	Beneficial	Personal	200,000	0.01%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2009, 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	577,741,880	35.62%
CCB International (Holdings) Limited	186,000,000	11.47%

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 2009, nil Options (2008 (restated): 6,200,000 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 *(Note 1)*			
Name of Grantee	**Date of Grant**	**Exercisable Period**	**Subscription price per Share** *(Note 1)*	**Outstanding as at 31 December 2008**	**Granted during the year**	**Exercised during the year**	**Outstanding as at 31 December 2009**
Directors:							
Yang Xin Min	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	1,600,000	—	—	1,600,000
Zhou Quan	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	600,000	—	600,000	—
Huang Yue Qin	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	600,000	—	600,000	—
Li Fu Ping	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	600,000	—	600,000	—
Cheng Faat Ting Gary	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	200,000	—	200,000	—
Shi You Chun (Resigned)	15 August 2008	15 August 2008 to 31 December 2009	HK$0.33	200,000	—	—	200,000
Andrew Leinwand (Resigned)	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	200,000	—	200,000	—
Carl Steiss (Resigned)	15 August 2008	15 August 2008 to 21 March 2010	HK$0.33	200,000	—	—	200,000
Victor Tong (Resigned)	1 December 2008	1 December 2008 to 28 April 2010	HK$0.1425	200,000	—	—	200,000
Subtotal				4,400,000	—	2,200,000	2,200,000
Employee:							
Li Mei Kuen Susanna	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	600,000	—	600,000	—
Other parties:							
Josh Gerstein	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	600,000	—	600,000	—
Goldpac Investments Ltd.	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	600,000	—	—	600,000
Subtotal				1,200,000	—	600,000	600,000
Grand Total				6,200,000	—	3,400,000	2,800,000

Note 1: The Exercise Price and the number of Options shown in the table above had been restated to reflect the effect of the 1 to 20 subdivision of Shares which took effect from 9 November 2009.

CONNECTED TRANSACTIONS

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

TRADEMARK

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

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

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

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 16 to 22.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 20% and 49% 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 22% and 58% 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 2009, the Group made RMB328,000 donations to charitable organisations and charity funds in the PRC (2008: RMB605,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

NON-ADJUSTING SUBSEQUENT EVENTS

Details of non-adjusting subsequent events are set out in note 33 to the financial statements.

AUDITORS

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

22 April 2010

Independent Auditor's Report

to the shareholders of
Sino Dragon New Energy Holdings Limited
(Formerly China Zirconium Limited)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sino Dragon New Energy Holdings Limited (formerly China Zirconium Limited) (the "Company") which comprise the consolidated and company statements of financial position as at 31 December 2009 and 2008 and the consolidated income statement, the consolidated statement of comprehensive (loss)/ income, 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") issued 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at 31 December 2009 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

COMMENTS BY AUDITOR FOR CANADIAN READERS ON CANADIAN GAAS — ISA REPORTING DIFFERENCES

Our report to the Board of Directors of Sino Dragon New Energy Holdings Limited for year ended 31 December 2009 and 2008 was prepared in accordance with International Standards on Auditing. There is no material differences in the form and content of this report as compared with a report prepared in accordance with Canadian Generally Accepted Auditing Standards ("Canadian GAAS"). An auditor's report prepared by us in accordance with Canadian GAAS would not contain a reservation.

KPMG LLP
Chartered Accountants, Licensed Public Accountants

Toronto Canada
22 April 2010

Consolidated income statement

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Turnover	3	**126,108**	478,775
Cost of sales		**(146,685)**	(366,780)
Gross (loss)/profit		**(20,577)**	111,995
Other net income	4	**626**	2,355
Distribution costs		**(4,585)**	(12,202)
Administrative expenses		**(23,661)**	(35,561)
Other operating expenses		**(5,268)**	(2,817)
Impairment of non-current assets	12(c)	**(342,519)**	(9,290)
(Loss)/profit from operations		**(395,984)**	54,480
Net finance costs	5(a)	**278**	(9,645)
(Loss)/profit before taxation	5	**(395,706)**	44,835
Income tax credit/(expense)	6(a)	**93,470**	(13,942)
(Loss)/profit for the year		**(302,236)**	30,893
Attributable to:			
Equity shareholders of the Company		**(296,430)**	31,287
Minority interests		**(5,806)**	(394)
(Loss)/profit for the year		**(302,236)**	30,893
Earnings per share			
Basic *(cents)*	10(a)	**(23.8)**	2.2
Diluted *(cents)*	10(b)	**(23.8)**	2.2

The notes on pages 45 to 116 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the (loss)/profit for the year are set out in note 27(b).

Consolidated statement of comprehensive (loss)/income

for the year ended 31 December 2009
(Expressed in Renminbi)

	2009 RMB'000	2008 RMB'000
(Loss)/profit for the year	**(302,236)**	30,893
Other comprehensive income/(loss) for the year (after tax and reclassification adjustments)		
Exchange differences on translation of:		
— financial statements of operations outside the People's Republic of China ("the PRC")	**1,981**	(1,991)
	1,981	(1,991)
Total comprehensive (loss)/income for the year	**(300,255)**	28,902
Attributable to:		
Equity shareholders of the Company	**(295,561)**	30,029
Minority interests	**(4,694)**	(1,127)
Total comprehensive (loss)/income for the year	**(300,255)**	28,902

The notes on pages 45 to 116 form part of these financial statements.

Consolidated statement of financial position

at 31 December 2009
(Expressed in Renminbi)

	Note	**2009**	2008
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	12	**118,944**	303,186
Construction in progress	13	**1,779**	85,938
Lease prepayments	14	**64,510**	68,037
Intangible assets	15	**28**	174
Long-term prepayments	17	**8,129**	35,119
Deferred tax assets	26(b)	**99,186**	6,246
Total non-current assets		**292,576**	498,700
Current assets			
Inventories	18	**30,301**	48,263
Trade and other receivables and prepayments	19	**31,328**	52,681
Amount due from related parties	21 and 30(c)	**64**	170
Lease prepayments	14	**1,597**	1,617
Cash and cash equivalents	20	**230,136**	278,403
Total current assets		**293,426**	381,134
Total assets		**586,002**	879,834
Current liabilities			
Trade and other payables	22	**48,936**	54,167
Amounts due to related parties	21 and 30(c)	**2,733**	10,185
Interest-bearing borrowings	23	**—**	6,832
Current taxation	26(a)	**19,637**	19,637
Total current liabilities		**71,306**	90,821

Consolidated statement of financial position

at 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Net current assets		**222,120**	290,313
Total assets less current liabilities		**514,696**	789,013
Non-current liabilities			
Deferred tax liabilities	26(b)	**—**	530
NET ASSETS		**514,696**	788,483
CAPITAL AND RESERVES			
Share capital	27(c)	**82,598**	74,242
Reserves		**366,269**	348,382
Retained earnings		**65,570**	362,000
Total equity attributable to equity shareholders of the Company		**514,437**	784,624
Minority interests		**259**	3,859
TOTAL EQUITY		**514,696**	788,483

Approved and authorised for issue by the board of directors on 22 April 2010

Director *Director*

The notes on pages 45 to 116 form part of these financial statements.

Statement of financial position

at 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Investments in subsidiaries	16	**256,154**	275,026
Current assets			
Other receivables	19	**12,712**	12,589
Cash and cash equivalents	20	**11,674**	1,516
		24,386	14,105
Current liabilities			
Other payables	22	**1,813**	3,383
Amounts due to related parties	21	**6,970**	12,236
		8,783	15,619
Net current assets/(liabilities)		**15,603**	(1,514)
Total assets less current liabilities		**271,757**	273,512
Non-current liabilities			
Deferred tax liabilities	26(b)	**—**	530
NET ASSETS		**271,757**	272,982

Statement of financial position

at 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
CAPITAL AND RESERVES	27		
Share capital		**82,598**	74,242
Reserves		**242,259**	225,677
Accumulated losses		**(53,100)**	(26,937)
TOTAL EQUITY		**271,757**	272,982

Approved and authorised for issue by the board of directors on 22 April 2010

Director *Director*

The notes on pages 45 to 116 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2009
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 (Note 27(a))	Merger reserve RMB'000 (Note 27(e))	Share premium RMB'000 (Note 27(e))	Statutory reserves RMB'000 (Note 27(e))	Capital reserve RMB'000 (Note 27(e))	Exchange reserve RMB'000 (Note 27(e))	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
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
Total comprehensive income for the year	—	—	—	—	—	(1,258)	31,287	30,029	(1,127)	28,902
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
At 1 January 2009	74,242	(11,085)	271,980	92,749	637	(5,899)	362,000	784,624	3,859	788,483
Shares issued under placement, net of issuance costs	8,206	—	19,963	—	—	—	—	28,169	—	28,169
Shares issued under share option scheme	150	—	1,201	—	(362)	—	—	989	—	989
Total comprehensive income for the year	—	—	—	—	—	869	(296,430)	(295,561)	(4,694)	(300,255)
Dividends approved during the year	—	—	(3,784)	—	—	—	—	(3,784)	—	(3,784)
Capital injection by minority interests	—	—	—	—	—	—	—	—	1,094	1,094
At 31 December 2009	82,598	(11,085)	289,360	92,749	275	(5,030)	65,570	514,437	259	514,696

The notes on pages 45 to 116 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Cash (used in)/generated from operations	20(b)	**(8,974)**	151,764
Income tax paid		**—**	(28,705)
Net cash (used in)/generated from operating activities		**(8,974)**	123,059
Investing activities			
Payment for the purchase of property, plant and equipment		**(51,300)**	(5,363)
Proceeds from disposal of property, plant and equipment		**900**	1,526
Deposits for the purchase of property, plant and equipment		**—**	(2,090)
Payment for construction in progress		**(6,506)**	(47,119)
Payment for lease prepayments		**—**	(4,934)
Increase in long-term prepayments		**(1,925)**	(25,809)
Interest received		**135**	705
Increase in deposits maturing beyond three months when placed		**(162)**	—
Net cash used in investing activities		**(58,858)**	(83,084)

Consolidated cash flow statement

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	**2009** **RMB'000**	2008 RMB'000
Financing activities			
Repayment of bank borrowings		**(6,832)**	(12,249)
Proceeds from new bank borrowings		**—**	6,832
Proceeds from shares issued, under placement, net of issuance costs	27(d)(iii)	**28,169**	571
Proceeds from exercise of share options	27(d)(v)	**988**	—
Capital contribution from minority shareholder		**1,094**	4,986
Dividends paid to equity shareholders of the Company	27(b)	**(3,784)**	(12,669)
Interest paid	5(a)	**(51)**	(311)
Net cash generated from/(used in) financing activities		**19,584**	(12,840)
Net (decrease)/increase in cash and cash equivalents		**(48,248)**	27,135
Cash and cash equivalents at 1 January		**278,403**	253,152
Effect of foreign exchange rate changes		**(181)**	(1,884)
Cash and cash equivalents at 31 December	20	**229,974**	278,403

The notes on pages 45 to 116 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

Sino Dragon New Energy Holdings Limited (the "Company") was incorporated in the Cayman Islands on 18 July 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. 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 ("TSX") in 2008. On 30 September 2009, the Company voluntarily delisted and ceased trading on the TSX.

The consolidated financial statements of the Company as at and for the year ended 31 December 2009 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, new energy materials and rechargeable batteries.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations, issued 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.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Basis of preparation *(continued)*

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 32.

(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 statement of financial position 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 and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Basis of consolidation *(continued)*

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 statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(d) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Construction in progress

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

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

(f) Lease prepayments

Lease prepayments represent payments made to acquire 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 statement of financial position 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 held 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 reporting 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Impairment of assets *(continued)*

(i) Impairment of receivables *(continued)*

If any such evidence exists, the impairment loss is determined and recognised as follows:

— For current receivables carried at amortised cost, the impairment loss is 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.

  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.

— For other current receivables carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated recoverable amount.

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.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting 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.

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 fair value less costs to sell 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 the 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).

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Impairment of assets *(continued)*

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

— Recognition of impairment losses

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

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

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

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) Inventories

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

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

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

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

(k) Trade and other receivables

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

(l) Interest-bearing borrowings

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

(m) Trade and other payables

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

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Cash and cash equivalents

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

(o) Employee benefits

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

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

(p) Share-based payments

The fair value of share options granted to grantees is recognised as an administrative expense with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date 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 resulting 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 employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Income tax

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

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

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

Apart from temporary differences which arose from the initial recognition of assets and liabilities, 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 reporting date. Deferred tax assets and liabilities are not discounted.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Income tax *(continued)*

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

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) Provisions and contingent liabilities

Provisions are recognised for 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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.

(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 statement of financial position 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(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 reporting 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. Statement of financial position items are translated into Renminbi at the foreign closing exchange rates at the reporting date. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside the PRC, the cumulative amount of the exchange differences relating to that operation outside the PRC is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(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 equity 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 equity shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares which include share options granted.

1 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(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 financial 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.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new and revised IFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 8, *Operating segments*

— IAS 1 (revised 2007), *Presentation of financial statements*

— Improvements to IFRSs (2008)

— Amendments to IFRS 7, *Financial instruments: Disclosures - improving disclosures about financial instruments*

— Amendments to IFRS 2, *Share-based payment - vesting conditions and cancellations*

The amendments to IFRS 2 and Improvements to IFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's financial statements. The impact of the remainder of these developments is as follows:

— IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 11). Corresponding amounts have been provided on a basis consistent with the revised segment information.

— As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

The Group has not applied any new standard or interpretation (note 34) that is not yet effective for the current accounting period.

3 TURNOVER

The principal activities of the Group are the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials and rechargeable batteries.

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:

	2009 ***RMB'000***	2008 *RMB'000*
Sales of zirconium and new energy materials	**113,202**	462,230
Sales of rechargeable batteries	**12,773**	16,545
Sales of mineral resources	**133**	—
	126,108	478,775

The Group's customer base is diversified and includes only two customers with whom transactions have exceeded 10% of the Group's revenues. In 2009 revenues from sales of zirconium compounds to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB39 million (2008: RMB68 million) and all related to the sale of zirconium compounds. Details of concentrations of credit risk arising from these customers are set out in note 28(a).

Further details regarding the Group's principal activities are disclosed in note 11 to these financial statements.

4 OTHER NET INCOME

	2009 ***RMB'000***	2008 *RMB'000*
Government grants	**666**	1,223
Others	**(40)**	1,132
	626	2,355

5 (LOSS)/PROFIT BEFORE TAXATION

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

		2009 RMB'000	2008 RMB'000
(a)	Net finance costs:		
	Interest income	**(135)**	(705)
	Interest on bank borrowings wholly repayable within five years	**51**	311
	Net exchange (gain)/loss	**(194)**	10,039
		(278)	9,645
(b)	Staff costs:		
	Salaries, wages and other benefits	**19,322**	20,312
	Contributions to defined contribution retirement schemes	**1,246**	2,524
	Equity-settled share-based payment expenses *(note 25)*	**—**	547
		20,568	23,383
(c)	Other items:		
	Depreciation	**19,303**	17,280
	Amortisation		
	— lease prepayments	**1,714**	1,505
	— intangible assets	**87**	729
	Reversal of impairment of trade receivables	**(1,035)**	—
	Impairment of trade and other receivables	**687**	1,990
	Research and development costs	**750**	2,211
	Loss on disposal of property, plant and equipment	**3,306**	44
	Auditors' remuneration		
	— audit services	**1,843**	3,469
	— other services	**343**	3,477
	Operating lease charges in respect of office premises in Hong Kong	**772**	671
	Cost of inventories *(note 18)*#	**146,685**	366,780

\# Cost of inventories includes RMB32,006,000 (2008: RMB30,974,000) 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:

	2009	2008
	RMB'000	*RMB'000*
Current tax — PRC Corporate Income Tax		
Provision for the year	—	19,203
Over-provision in respect of prior year	—	(2,782)
	—	16,421
Deferred tax		
Origination and reversal of temporary differences *(note 26(b))*	**(93,470)**	(2,479)
	(93,470)	13,942

(i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) No provision for Hong Kong Profits Tax has been made as the Group did not earn any profits assessable to Hong Kong Profits Tax for the years ended 31 December 2009 and 2008.

(iii) Pursuant to the Corporate Income Tax Law of the PRC ("PRC Tax Law") effective from 1 January 2008, the Group's subsidiaries in the PRC are subject to Corporate Income Tax ("CIT") at a tax rate of 25% on the assessable profits for the year.

No CIT provision has been made for Yixing Xinxing Zirconium Company Limited ("YXZL") for 2009 as YXZL incurred tax losses for the year. Provision for CIT for YXZL for 2008 was calculated at 25% on the assessable profit for that year.

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

Binhai Dragon Crystal Chemicals Company Limited ("BHDC") did not have any assessable profits for both 2008 and 2009, and therefore, no CIT provision has been made for BHDC.

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

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

(iv) Pursuant to the Income Tax Law in Indonesia, P.T. Asia Prima Resources ("APR") is subject to corporate income tax at progressive rates ranging from 10% - 30%, based on the level of assessable profit earned by the enterprise. No corporate income tax provision has been made as it has no assessable profits for both 2008 and 2009.

(v) In addition, the Group is subject to withholding tax at the rate of 10% (unless reduced by treaty) on distributions of profits generated after 31 December 2007 from the subsidiaries in the PRC.

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

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

	2009	2008
	RMB'000	*RMB'000*
(Loss)/profit before taxation	**(395,706)**	44,835
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(96,815)**	15,100
Tax effect of non-deductible expenses	**—**	119
Tax effect on unused tax losses not recognised	**3,369**	1,013
Tax effect of tax concessions	**(465)**	—
Over-provision in prior year	**—**	(2,782)
Dividend withholding tax	**—**	530
Others	**441**	(38)
Actual tax (credit)/expenses	**(93,470)**	13,942

7 DIRECTORS' REMUNERATION

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

	Fees	Salaries, allowances and other benefits	Contributions to retirement scheme	Sub-total	Share-based payments (note)	2009 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr Yang Xin Min	—	1,608	3	1,611	—	1,611
Mr Li Fu Ping	—	240	3	243	—	243
Ms Huang Yue Qin	—	437	3	440	—	440
Mr Zhou Quan	—	240	3	243	—	243
Mr Fang Guo Hong (appointed on 23 November 2009)	—	33	—	33	—	33
Independent non-executive directors						
Mr Cheng Faat Ting Gary	70	—	—	70	—	70
Mr. Ji Chang Ming (appointed on 22 December 2009)	2	—	—	2	—	2
Mr. Andrew Leinwand (resigned on 1 June 2009)	24	—	—	24	—	24
Mr. Carl Steiss (resigned on 22 December 2009)	61	—	—	61	—	61
Mr. Victor Tong (resigned on 29 January 2010)	61	—	—	61	—	61
	218	2,558	12	2,788	—	2,788

7 DIRECTORS' REMUNERATION *(CONTINUED)*

	Fees	Salaries, allowances and other benefits	Contributions to retirement scheme	Sub-total	Share-based payments *(note)*	2008 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 Cheng Faat Ting Gary	71	—	—	71	17	88
Mr. Andrew Leinwand (appointed on 15 August 2008)	22	—	—	22	17	39
Mr. Carl Steiss (appointed on 15 August 2008)	22	—	—	22	17	39
Mr. Victor Tong (appointed on 1 December 2008)	5	—	—	5	7	12
Mr Guo Jing Mao (resigned on 15 August 2008)	30	—	—	30	—	30
Mr Shi You Chun (resigned on 18 September 2008)	40	—	—	40	17	57
	190	2,493	12	2,695	477	3,172

7 DIRECTORS' REMUNERATION *(CONTINUED)*

During the year, no amount was paid or payable by the Group 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 25.

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2008: four) are also directors whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the other one (2008: one) individual are as follows:

	2009 ***RMB'000***	2008 *RMB'000*
Salaries and other emoluments	**744**	752
Contributions to retirement benefit scheme	**11**	11
Share-based payments	**—**	71
	755	834

The emoluments of the one (2008: one) individual with the highest emoluments are within the following band:

	2009 **Number of** **Individuals**	2008 Number of individuals
HK$Nil to HK$1,000,000	**1**	1

9 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of RMB26,163,000 (2008: RMB15,431,000) which has been dealt with in the financial statements of the Company.

10 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company for the year of RMB296,430,000 (2008: profit of RMB31,287,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2009 of 1,244,459,846 (2008 (restated): 1,424,291,820).

The weighted average number of ordinary shares in 2009 and 2008 for the purposes of calculating the basic and diluted earnings per shares have been retrospectively adjusted for the subdivision of the share on a 1 to 20 basis ("Share Subdivision") which took place on 9 November 2009.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of RMB296,430,000 (2008: profit of RMB31,287,000) and the weighted average number of ordinary shares in issue during the year after adjusting for the effect of potential dilutive shares, assuming they were exercised:

Weighted average number of ordinary shares (diluted):

	2009	2008
	'000	*'000*
Weighted average number of ordinary shares	**1,244,460**	1,424,292
Effect of deemed issue of shares under the Company's share option scheme at consideration of HK$0.14 (2008 (restated): HK$0.14) per share	**100**	—
Weighted average number of ordinary shares (diluted)	**1,244,560**	1,424,292

11 SEGMENT REPORTING

The Group manages its businesses by the operating subsidiaries in the People's Republic of China (the "PRC") which are engaged in the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials and rechargeable batteries. On first-time adoption of IFRS 8, *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified four reportable segments, namely, Yixing Xinxing Zirconium Company Limited ("YXZL"), Yixing Better Batteries Company Limited ("YBBL"), Binhai Dragon Crystal Chemicals Company Limited ("BHDC") and PT Asia Prima Resources ("APR"). No operating segments have been aggregated to form the above reporting segments.

(a) Segment results, assets and liabilities

In accordance with IFRS 8, segment information disclosed in the financial statements has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade and other payables attributable to the manufacturing and sales activities of the individual segments and interest-bearing borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment (loss)/profit is "adjusted (loss)/profit before taxation". To arrive at reportable segment (loss)/profit, the Group's (loss)/profit before taxation is adjusted for items not specially attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administrative costs. Income tax charge is not allocated to reporting segments.

In addition to receiving segment information concerning adjusted (loss)/profit after taxation, management is provided with segment information concerning revenue (including inter segment sales), net finance costs from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment loss of non-current assets and additions to non-current segment assets used by the respective segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

11 SEGMENT REPORTING *(CONTINUED)*

(a) Segment results, assets and liabilities *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2009 and 2008 is set out below.

	YXZL		YBBL		BHDC		APR		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**113,202**	462,230	**12,773**	16,545	**—**	—	**133**	—	**126,108**	478,775
Inter-segment revenue	**1,792**	2,942	**—**	—	**—**	—	**4,284**	—	**6,076**	2,942
Reportable segment revenue	**114,994**	465,172	**12,773**	16,545	**—**	—	**4,417**	—	**132,184**	481,717
Reportable segment (loss)/ profit (adjusted (loss)/ profit before taxation)	**(279,419)**	72,609	**2,755**	(8,355)	**(97,997)**	(1,322)	**(11,850)**	(804)	**(386,511)**	62,128
Net finance costs	**(84)**	(9,013)	**7**	(4)	**4**	30	**(120)**	—	**(193)**	(8,987)
Depreciation and amortisation for the year	**20,001**	18,875	**397**	410	**358**	149	**337**	71	**21,093**	19,505
Impairment of non-current assets	**239,269**	3,857	**—**	5,433	**96,715**	—	**6,535**	—	**342,519**	9,290
Reportable segment assets	**491,415**	798,101	**18,640**	15,704	**19,279**	99,923	**618**	8,480	**529,952**	922,208
Additions to non-current segment assets during the year	**50,625**	45,999	**341**	107	**29,394**	71,915	**48**	6,681	**80,408**	124,702
Reportable segment liabilities	**(150,038)**	(177,306)	**(3,361)**	(3,180)	**(45,555)**	(35,066)	**(89)**	(604)	**(199,043)**	(216,156)

11 SEGMENT REPORTING *(CONTINUED)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2009 **RMB'000**	2008 RMB'000
Revenue		
Reportable segment revenue	**132,184**	481,717
Elimination of inter-segment revenue	**(6,076)**	(2,942)
Consolidated turnover	**126,108**	478,775
(Loss)/profit		
Reportable segment (loss)/profit	**(386,511)**	62,128
Unallocated head office and corporate expenses	**(9,195)**	(17,293)
Consolidated (loss)/profit before taxation	**(395,706)**	44,835
Assets		
Reportable segment assets	**529,952**	922,208
Elimination of inter-segment receivables	**(57,292)**	(51,763)
	472,660	870,445
Deferred tax assets	**99,186**	6,246
Unallocated head office and corporate assets	**14,156**	3,143
Consolidated total assets	**586,002**	879,834

11 SEGMENT REPORTING *(CONTINUED)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(continued)*

	2009 RMB'000	2008 RMB'000
Liabilities		
Reportable segment liabilities	**199,043**	216,156
Elimination of inter-segment payables	**(145,381)**	(156,548)
	53,662	59,608
Deferred tax liabilities	**—**	530
Unallocated head office and corporate liabilities	**17,644**	31,213
Consolidated total liabilities	**71,306**	91,351

12 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 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 13)*	172	57,632	—	—	57,804
Disposals	(1,783)	—	—	—	(1,783)
At 31 December 2008	113,834	283,384	1,715	7,039	405,972
At 1 January 2009	113,834	283,384	1,715	7,039	405,972
Exchange adjustments	334	454	10	16	814
Additions	28,284	25,081	25	—	53,390
Transfer from construction in progress *(note 13)*	28,148	—	—	—	28,148
Disposals	(3,262)	(12,349)	(699)	(977)	(17,287)
At 31 December 2009	167,338	296,570	1,051	6,078	471,037

12 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 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 (d))*	—	9,290	—	—	9,290
Written back on disposals	(213)	—	—	—	(213)
At 31 December 2008	25,262	72,744	1,404	3,376	102,786
At 1 January 2009	25,262	72,744	1,404	3,376	102,786
Exchange adjustments	14	26	3	3	46
Charge for the year	5,092	13,310	150	751	19,303
Impairment loss *(note (c))*	92,937	148,468	120	1,514	243,039
Written back on disposals	(2,458)	(9,664)	(699)	(260)	(13,081)
At 31 December 2009	120,847	224,884	978	5,384	352,093
Net book value:					
At 31 December 2009	46,491	71,686	73	694	118,944
At 31 December 2008	88,572	210,640	311	3,663	303,186

(Expressed in Renminbi unless otherwise indicated)

12 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Notes:

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

(b) At 31 December 2009, 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 RMB66,260,000 (2008: RMB14,932,000).

(c) During 2009, the Group experienced a significant drop in demand for its zirconium and related products under the prevailing market environment and consequently recorded operating losses. The directors considered that the existence of the above conditions indicated that non-current assets of the Group's operating subsidiaries in the PRC and Indonesia may be impaired. In view of this, the directors prepared a cash flow projection to estimate the recoverable amount of these assets.

The estimates of recoverable amount were determined based on a value in use calculation using cash flow projections based on the five-year financial forecast approved by the directors, and a pre-tax discount rate.

Key assumptions used for the value in use calculation:

Sales volume growth rate	10%-15%
Gross contribution rate	7%-15%
Pre-tax discount rate	16%-17%

The directors determined the growth rate and gross contribution rate based on the expectation for market development.

12 PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Notes: (continued)

The directors concluded that it is appropriate to recognise impairment losses of RMB342,519,000 against these non-current assets, details of which are as follows:

	Note	The Group 2009 RMB'000
Property, plant and equipment		243,039
Construction in progress	13	83,039
Lease prepayments	14	1,996
Intangible assets	15	59
Long-term prepayments	17	14,386
Charged to profit or loss		342,519

(d) 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 (including in administrative expenses) at 31 December 2008. The estimates of recoverable amount were based on the fair values less costs to sell.

13 CONSTRUCTION IN PROGRESS

	The Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**85,938**	46,208
Additions	**27,028**	97,534
Transfer to property, plant and equipment *(note 12)*	**(28,148)**	(57,804)
Impairment loss *(note 12(c))*	**(83,039)**	—
At 31 December	**1,779**	85,938

Construction in progress as at 31 December 2009 comprises costs incurred on buildings under construction and plant and equipment under installation.

14 LEASE PREPAYMENTS

	The Group 2009 RMB'000	2008 RMB'000
Costs:		
At 1 January	**80,860**	61,945
Additions	**—**	18,915
Exchange adjustments	**163**	—
At 31 December	**81,023**	80,860
Accumulated amortisation and impairment loss:		
At 1 January	**11,206**	9,701
Charge for the year	**1,714**	1,505
Impairment loss *(note 12(c))*	**1,996**	—
At 31 December	**14,916**	11,206
Net book value:		
At 31 December	**66,107**	69,654
Current portion	**(1,597)**	(1,617)
Non-current portion	**64,510**	68,037

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.

15 INTANGIBLE ASSETS

The Group

	Technical know-how	
	2009	2008
	RMB'000	*RMB'000*
Cost:		
At 1 January and 31 December	**4,345**	4,345
Accumulated amortisation:		
At 1 January	**4,171**	3,442
Charge for the year	**87**	729
Impairment loss *(note 12(c))*	**59**	—
At 31 December	**4,317**	4,171
Net book value:		
At 31 December	**28**	174

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.

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2009	2008
	RMB'000	*RMB'000*
Unlisted shares, at cost	**33,051**	31,707
Less: Impairment loss	**(17,891)**	—
	15,160	31,707
Amounts due from subsidiaries *(Note (i))*	**240,994**	243,319
	256,154	275,026

(Expressed in Renminbi unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

The following list contains only the particulars of subsidiaries as at 31 December 2009 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/ registered capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by subsidiaries	Principal activity
Kingweston Technology Limited	British Virgin Islands	US$2,500,000	100%	—	Investment holding in Hong Kong
P.T. Asia Prima Resources ("APR")	Indonesia	US$1,900,000	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 ("BHDC")*	The PRC	US$10,000,000	—	100%	Research, development, manufacturing and sales of zirconium compounds
Century Dragon Investment Limited ("CDIL")	Hong Kong	HK$15,000,000	—	100%	Leasing of the Group's office premises in Hong Kong, provision of administrative services and general trading in Hong Kong
Yixing Better Batteries Company Limited ("YBBL")*	The PRC	US$4,200,000	—	100%	Research, development, manufacturing and sales of rechargeable batteries
Yixing Xinxing Zirconium Company Limited ("YXZL")*	The PRC	US$13,100,000	—	100%	Research, development, manufacturing and sales of zirconium compounds and new energy materials

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

16 INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Notes :

(i) The amounts due from subsidiaries as at 31 December 2008 and 2009 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.

(iii) On 16 January 2009, the Company injected an additional capital of US$204,000 (approximately to RMB1,138,000) to APR.

(iv) On 25 September 2009, CDIL injected an additional capital of US$1,005,000 (approximately to RMB6,864,000) to BHDC.

(v) In late December 2009, the zircon sand processing plant area of APR was sealed off by the local government authority of Indonesia, pending for the investigation of certain mineral supplies being made to the plant by certain suppliers without proper mining license. Based on available facts and circumstances, the directors of the Company are of the view that there is no indication of potential litigation against APR or the Group in respect of this matter at the reporting date. As the Group is uncertain on when APR will resume access to the zircon sand processing plant, the directors of the Company decided to make a full provision for the impairment losses of the assets of APR totaling RMB9,103,000 as at 31 December 2009.

17 LONG-TERM PREPAYMENTS

	2009	2008
	RMB'000	*RMB'000*
At 1 January	**35,119**	59,689
Additions during the year	**1,925**	25,809
Transfer out during the year	**(14,529)**	(50,379)
	22,515	35,119
Impairment loss *(note 12(c))*	**(14,386)**	—
At 31 December	**8,129**	35,119

As at 31 December 2009, the Group had made prepayments of RMB22,515,000 (2008: RMB35,119,000) 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.

18 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Raw materials	**13,034**	12,081
Work in progress	**4,997**	6,227
Finished goods	**12,270**	29,955
	30,301	48,263

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**143,047**	366,657
Write-down of inventories	**3,739**	897
Reversal of write-down of inventories	**(101)**	(774)
Cost of inventories	**146,685**	366,780

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

19 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**24,233**	34,566	**—**	—
Less: Allowance for doubtful debts *(note 19(b))*	**(1,479)**	(3,720)	**—**	—
	22,754	30,846	**—**	—
Advance payments to suppliers	**3,899**	16,657	**—**	—
Deposits and prepayments	**929**	2,121	**—**	—
Dividend receivable	**—**	—	**12,323**	12,341
Other receivables	**3,746**	3,057	**389**	248
	31,328	52,681	**12,712**	12,589

(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 the reporting date is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Current	**17,398**	21,015
Less than 3 months past due	**4,001**	8,897
More than 3 months but less than 1 year past due	**1,324**	286
Over 1 year past due	**31**	648
Amounts past due	**5,356**	9,831
	22,754	30,846

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 28(a).

19 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)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**3,720**	1,730
Reversal of impairment of trade receivables *(note 5(c))*	**(1,035)**	—
Impairment of trade receivables	**—**	1,990
Uncollectible amounts written off	**(1,206)**	—
At 31 December	**1,479**	3,720

At 31 December 2009, the Group's trade receivables of RMB1,512,000 (2008: RMB4,125,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB1,479,000 (2008: RMB3,720,000) were recognised. The Group does not hold any collateral over these balances.

19 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(CONTINUED)*

(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	
	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired	**17,398**	21,015
Less than 3 months past due	**4,001**	8,897
More than 3 months but less than 1 year past due	**1,322**	286
Over 1 year past due	**—**	243
	5,323	9,426
	22,721	30,441

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.

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deposits with banks	**162**	1,627	**162**	1,374
Cash at bank and in hand	**229,974**	276,776	**11,512**	142
Cash and cash equivalents in the statement of financial position	**230,136**	278,403	**11,674**	1,516
Deposits maturing beyond three months when placed	**(162)**	—	**(162)**	—
Cash and cash equivalents in the consolidated cash flow statement	**229,974**	278,403	**11,512**	1,516

As at 31 December 2009, the Group's cash and cash equivalents of RMB212,568,000 (2008: RMB225,700,000) 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.

20 CASH AND CASH EQUIVALENTS *(CONTINUED)*

(b) Reconciliation of (loss)/profit before taxation to cash (used in)/generated from operations:

	Note	2009 RMB'000	2008 RMB'000
(Loss)/profit before taxation		**(395,706)**	44,835
Adjustments for:			
— Depreciation	5(c)	**19,303**	17,280
— Amortisation of lease prepayments	5(c)	**1,714**	1,505
— Amortisation of intangible assets	5(c)	**87**	729
— Interest expense	5(a)	**51**	311
— Interest income	5(a)	**(135)**	(705)
— Equity-settled share-based payment expenses		**—**	637
— Reversal of impairment of trade receivables	5(c)	**(1,035)**	—
— Impairment of trade and other receivables	5(c)	**687**	1,990
— Impairment of non-current assets	12(c)	**342,519**	9,290
— Provision for inventories		**3,638**	123
— Loss on disposal of property, plant and equipment	5(c)	**3,306**	44
— Foreign exchange loss		**1,303**	1,696
Operating (loss)/profit before changes in working capital		**(24,268)**	77,735
Decrease in inventories		**14,324**	16,372
Decrease in trade and other receivables and prepayments		**21,746**	60,141
Decrease/(increase) in amounts due from related parties		**106**	(123)
Decrease in trade and other payables		**(13,430)**	(11,199)
(Decrease)/increase in amounts due to related parties		**(7,452)**	8,838
Cash (used in)/generated from operations		**(8,974)**	151,764

21 AMOUNTS DUE FROM/(TO) RELATED PARTIES

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

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**6,372**	8,114	**—**	—
Receipts in advance from customers	**1,031**	1,913	**—**	—
Payable for construction costs and acquisition of property, plant and equipment	**4,016**	6,738	**—**	—
Other payables and accruals	**37,517**	37,402	**1,813**	3,383
	48,936	54,167	**1,813**	3,383

All of the trade and other payables are expected to be settled within one year. Included in trade and other payables are trade payables with the following ageing analysis as of the reporting date:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months of invoice date	**3,530**	5,145
3 months to 6 months after invoice date	**569**	1,723
6 months to 1 year after invoice date	**741**	378
Over 1 year of invoice date	**1,532**	868
	6,372	8,114

23 INTEREST-BEARING BORROWINGS

The bank loans at 31 December 2008 bore interest at LIBOR plus 2% per annum and were repayable within one year. The bank loans were settled during the year ended 31 December 2009. There were no outstanding bank loans at 31 December 2009.

24 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement schemes

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 Schemes 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.

(Expressed in Renminbi unless otherwise indicated)

25 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 2009, there were no options (2008: 310,000) granted under the Scheme. The options vest immediately from the date of grant and are exercisable within a period of five years.

(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
	310,000		

25 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(CONTINUED)*

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

	2009		2008	
	Weighted average exercise price	**Number of options** *'000*	Weighted average exercise price	Number of options *'000*
Outstanding at the beginning of the year	**HK\$6.48**	**310**	—	—
Granted during the year	**—**	**—**	HK\$6.48	310
Share subdivision	**HK\$0.32**	**5,890**	—	—
Exercised during the year	**HK\$0.33**	**(3,400)**	—	—
Outstanding at the end of the year	**HK\$0.32**	**2,800**	HK\$6.48	310
Exercisable at the end of the year	**HK\$0.32**	**2,800**	HK\$6.48	310

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$0.46 (2008: not applicable).

Upon the share subdivision effective on 9 November 2009 (see note 27(d)(iv)), the number of shares attached to each of the options granted were proportionally adjusted to reflect the effect of the share subdivision.

The options outstanding at 31 December 2009 had an exercise price of HK\$0.33 or HK\$0.1425 (2008: HK\$6.60 or HK\$2.85) and contractual life of 5 years.

(Expressed in Renminbi unless otherwise indicated)

25 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.

Fair value of share options and assumptions	**2008**
Fair value at measurement date	HK$0.80-HK$2.36
Weighted average share price *(note)*	HK$6.47
Weighted average exercise price *(note)*	HK$6.48
Expected volatility	57%-66%
Option life	5 years
Expected dividends	2.06%
Risk-free interest rate	1.660%-2.915%

Note: The weighted average share price of HK$6.47 and weighted average exercise price of HK$6.48 were proportionally adjusted to HK$0.32 and HK$0.32 respectively to reflect the effect of the share subdivision.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted without condition and vested immediately.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Provision for PRC Corporate Income Tax for the year	—	19,203
PRC income tax paid	—	(28,705)
	—	(9,502)
Balance of PRC income tax relating to prior years	**19,637**	29,139
Income tax payable	**19,637**	19,637

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

The nature of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position 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 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
At 1 January 2009	4,644	1,602	(530)	5,716
Credited to profit or loss *(note 6(a))*	83,034	9,906	530	93,470
At 31 December 2009	87,678	11,508	—	99,186

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

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

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Deferred tax assets recognised on the statement of financial position	**99,186**	6,246
Deferred tax liabilities recognised on the statement of financial position	**—**	(530)
	99,186	5,716

The Group has recognised deferred tax assets as at 31 December 2009 in respect of cumulative tax losses of RMB48,970,000 (2008: RMB6,245,000) arising from the subsidiaries in the PRC as the directors are of the opinion that future taxable profits against which the losses can be utilised will be available. The tax losses of 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 2009 in respect of cumulative tax losses of RMB25,971,000 (2008: RMB13,327,000) arising from the subsidiaries in Hong Kong, the PRC and Indonesia, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses of the subsidiary in Hong Kong do not expire under current tax legislation while those of the subsidiaries in the PRC and Indonesia will expire in five years.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components in equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share Capital *(note (c))* *RMB'000*	Share premium *(note (e))* *RMB'000*	Capital reserve *(note (e))* *RMB'000*	Exchange reserve *(note (e))* *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2008	73,671	285,357	—	(27,211)	(11,506)	320,311
Equity settled share-based transactions	—	—	637	—	—	637
Shares issued under placement, net of issuance costs	571	—	—	—	—	571
Total comprehensive income for the year	—	—	—	(19,729)	(15,431)	(35,160)
Dividends approved during the year	—	(13,377)	—	—	—	(13,377)
At 31 December 2008	74,242	271,980	637	(46,940)	(26,937)	272,982
At 1 January 2009	74,242	271,980	637	(46,940)	(26,937)	272,982
Equity settled share-based transactions	—	—	—	—	—	—
Shares issued under placement, net of issuance costs	8,206	19,963	—	—	—	28,169
Shares issued under share option scheme	150	1,201	(362)	—	—	989
Total comprehensive income for the year	—	—	—	(436)	(26,163)	(26,599)
Dividends approved during the year	—	(3,784)	—	—	—	(3,784)
At 31 December 2009	82,598	289,360	275	(47,376)	(53,100)	271,757

27 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

(b) Dividends

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

	2009	2008
	RMB'000	*RMB'000*
Final dividend proposed after reporting date (2008: HK6.0 cents per share)	**—**	3,788

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

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

	2009	2008
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK6.0 cents per share (2008: HK2.0 cents per share)	**3,784**	12,669

27 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

(c) Authorised and issued share capital

	Number of shares *'000*	Nominal value of ordinary shares *HK$'000*
Authorised:		
Ordinary shares of HK$0.10 each at 1 January 2008	1,000,000	100,000
Share consolidation of authorised share capital of every 10 shares of HK$0.10 each into 1 share of HK$1.00 each on 30 June 2008	(900,000)	—
Ordinary shares of HK$1.00 each at 31 December 2008	100,000	100,000
Ordinary shares of HK$1.00 each at 1 January 2009	100,000	100,000
Increase in authorised capital	100,000	100,000
Share subdivision of authorised share capital of every share of HK$1.00 each to 20 shares of HK$0.05 each on 9 November 2009	3,800,000	—
Ordinary shares of HK$0.05 each at 31 December 2009	4,000,000	200,000

27 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

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

	Note	No. of shares	Nominal value of ordinary shares *HK$'000*	Nominal value of ordinary shares *RMB'000*
Issued and fully paid:				
1 January 2008		709,670,946	70,967	73,671
Share consolidation on 30 June 2008	(d)(i)	(638,703,852)	—	—
Issue of shares under offering:	(d)(ii)			
— on 15 August 2008		649,900	650	571
At 31 December 2008		71,616,994	71,617	74,242
1 January 2009		71,616,994	71,617	74,242
Share placing and subscription	(d)(iii)	9,310,000	9,310	8,206
Share subdivision on 9 November 2009	(d)(iv)	1,537,612,886	—	—
Shares issued under share option scheme	(d)(v)	3,400,000	170	150
At 31 December 2009		1,621,939,880	81,097	82,598

27 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

(d) Issue of shares

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

(ii) 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.

(iii) On 7 September 2009, the Company completed the placement of 9,310,000 ordinary shares pursuant to the terms of an agency agreement signed between the Company and one agent. The placing price is HK$3.48 per share.

Net proceeds from such issue amounting to HK$31,958,000 (equivalent to RMB28,169,000) after offsetting issuance expenses of RMB454,000, of which RMB8,206,000 was credited to share capital and the balance of RMB19,963,000 was credited to the share premium account.

(iv) On 6 November 2009, an Extraordinary General Meeting of the Company was held during which the shareholders approved the share subdivision, under which each of the existing issued and unissued shares of HK$1.00 each in the share capital of the Company would be subdivided into twenty subdivided shares of HK$0.05 each. The Share Subdivision became effective on 9 November 2009.

After the share subdivision, the Company has authorised capital of 4,000,000,000 ordinary shares at HK$0.05 each.

27 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

(d) Issue of shares *(continued)*

(v) During the year ended 31 December 2009, options were exercised to subscribe for 170,000 ordinary shares further sub-divided to 3,400,000 ordinary shares in the Company at a consideration of RMB988,000 of which RMB150,000 was credited to share capital and the balance of RMB838,000 was credited to the share premium account in accordance with policy set out in note 1(p).

(e) 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).

27 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

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

(v) Statutory reserves

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

(vi) Distributable reserves

The aggregate amount of distributable reserves of the Company at 31 December 2009 was RMB236,260,000 (2008: RMB245,043,000).

(f) 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 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 statement of financial position.

During 2009, the Group's strategy, which was unchanged from 2008, 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 2009 and 2008 are 10.0% and 10.6% respectively.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored as an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group normally grants a credit period of 60 days to domestic 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 reporting date, the Group has a certain concentration of credit risk as 25% (2008: 46%) and 58% (2008: 71%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors as at 31 December 2009 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 statement of financial position. The Group does not provide any 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 19.

(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 2009, the Group has a certain concentration of credit risk as 90.1% (2008: 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.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(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.

The following table details the remaining contractual maturities at the reporting 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 reporting date) and the earliest date the Company can be required to pay:

The Group

	2009			2008		
	Within 1 year or on demand *RMB'000*	**Total contractual undiscounted cash flow** *RMB'000*	**Carrying amount** *RMB'000*	Within 1 year or on demand *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
Trade and other payables	**48,936**	**48,936**	**48,936**	54,167	54,167	54,167
Amounts due to related parties	**2,733**	**2,733**	**2,733**	10,185	10,185	10,185
Interest-bearing borrowings	**—**	**—**	**—**	6,878	6,878	6,832
	51,669	**51,669**	**51,669**	71,230	71,230	71,184

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(b) Liquidity risk *(continued)*

The Company

	2009			2008		
	Within 1 year or on demand *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*	Within 1 year or on demand *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
Other payables	1,813	1,813	1,813	3,383	3,383	3,383
Amounts due to related parties	6,970	6,970	6,970	12,236	12,236	12,236
	8,783	8,783	8,783	15,619	15,619	15,619

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(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 reporting date:

The Group

	2009 Effective interest rate %	**2009** *RMB'000*	2008 Effective interest rate %	2008 *RMB'000*
Variable rate instruments:				
Interest-bearing borrowings	—	—	3.26	(6,832)
Cash and cash equivalents	**0.05**	**230,136**	0.25	278,403
Total		**230,136**		271,571

The Company

	2009 Effective interest rate %	**2009** *RMB'000*	2008 Effective interest rate %	2008 *RMB'000*
Cash and cash equivalents at variable rate	**0.05**	**11,674**	1.19	1,516

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss for the year and increase/decrease the Group's retained profits by approximately RMB1,768,000 (2008: increase/ decrease the Group's profit for the year and retained profits by approximately RMB2,716,000). Other components of consolidated equity would not be affected by change in interest rates (2008: Nil).

The sensitivity analysis above indicates the instantaneous change in the Group's (loss)/profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the reporting date and had been applied remeasure those financial instruments held by the Group which expose the Group to interest rate risk at the reporting date. The analysis is performed on the same basis for 2008.

(d) Currency risk

(i) Foreign currency transactions

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a currency other than the functional currency of the operation to which they relate. The currency giving rise to this risk is primarily United States dollars and Canadian dollars. During the year ended 31 December 2009, sales and purchases denominated in United States dollars represented 48% (2008: 57%) and 32% (2008: 7%) of the Group's total turnover and purchases, respectively.

(ii) Recognised assets and liabilities

In respect of trade receivables and payables and cash balances held in currencies other than the functional currency of the operation to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(d) Currency risk *(continued)*

(iii) Exposure to currency risk

The following table details the Group's exposure at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the operation to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi ("RMB") translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside the PRC into the Group's presentation currency are excluded.

	The Group *(expressed in RMB'000)*			
	2009		2008	
	Canadian Dollars	**United States Dollars**	Canadian Dollars	United States Dollars
	'000	***'000***	*'000*	*'000*
Cash and cash equivalents	**189**	**5,201**	1,427	49,675
Trade and other receivables and prepayments	**83**	**9,275**	—	16,538
Trade and other payables	**—**	**(381)**	—	(468)
Overall net exposure	**272**	**14,095**	1,427	65,745

The Company is not exposed to significant currency risks as most of the transactions are denominated in its functional currency.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(d) Currency risk *(continued)*

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's (loss)/profit after taxation for the year and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the reporting date had changed at that date, assuming all other risk variables remained constant. Other components of equity would not be affected by change in foreign exchange rates.

	2009			2008	
	Increase/ (decrease) in foreign exchange rates	**(Decrease)/ increase in loss after taxation**	**Increase/ (decrease) in retained profits**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained profits
	%	***RMB'000***	***RMB'000***	%	*RMB'000*
United States dollars	**5%**	**(530)**	**530**	5%	3,287
	(5)%	**530**	**(530)**	(5)%	(3,287)
Canadian dollars	**5%**	**(14)**	**14**	5%	71
	(5)%	**14**	**(14)**	(5)%	(71)

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

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 risk at the reporting 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 2008.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(CONTINUED)*

(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

As stated in note 21, the balances with related parties are interest-free and repayable on demand. Given these term it is not meaningful to disclose their fair values. All other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008.

29 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2009 not provided for in the financial statements are as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Contracted for	**20,418**	25,562
Authorised but not contracted for	**32,623**	37,452
	53,041	63,014

(b) At 31 December 2009, the Group had a commitment of US$561,000 (2008: US$765,000) equivalent to RMB3,847,000 (2008: RMB5,261,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

29 COMMITMENTS *(CONTINUED)*

(c) Operating leases

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Company	
	2009	2008
	RMB'000	*RMB'000*
Within 1 year	**583**	347
After 1 year but within 5 years	**991**	—
	1,574	347

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.

30 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	2009 RMB'000	2008 RMB'000
Water supply from related parties	(i)	**1,281**	1,975

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 2009, the Group had the following significant transactions with a related party:

	2009 RMB'000	2008 RMB'000
Purchase of property, plant and equipment	**—**	2,552

30 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	Note	**2009** **RMB'000**	2008 RMB'000
Amounts due from related parties:			
— Yang Zhen	(i) and (iv)	**64**	75
— Directors of the Company	(i)	**—**	95
		64	170
Amounts due to related parties:			
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (ii)	**(1,138)**	(1,138)
— Directors of the Company	(i)	**(910)**	(8,539)
— Yixing City Xushe Water Supply Plant	(i) and (iii)	**(685)**	(508)
		(2,733)	(10,185)

Notes:

(i) The balances at 31 December 2008 and 2009 are unsecured, non-interest bearing and repayable on demand.

(ii) The parties 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.

30 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(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:

	2009	2008
	RMB'000	*RMB'000*
Short-term employee benefits	**3,543**	4,006

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

31 COMPARATIVE FIGURES

As a result of the application of IAS 1 (revised 2007), *Presentation of financial statements*, and IFRS 8, *Operating Segments*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

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 significant accounting policies are set forth in note 1. In addition to notes 25 and 28 which contain information about assumptions relating to fair value of share options granted and financial instruments respectively, the Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(a) Impairment of assets

The Group reviews the carrying amounts of the assets at each reporting date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares a discounted future cash flow to assess the differences between the carrying amount and value in use and provide for impairment losses, if appropriate. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision for impairment losses and affect the net asset value of the Group and the Company.

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the results of the Group and the Company in future years.

(b) Write-down of inventories

The Group reviews the carrying amounts of the inventories at each reporting date to determine whether the inventories are carried at the lower of cost and net realisable value in accordance with accounting policy as set out in note 1(j). Management estimates the net realisable value based on the current market situation and historical experience for similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net asset value.

(c) Recognition of deferred tax assets

Recognition of deferred tax assets, which principally relates to deductible temporary differences and tax losses, depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which deferred tax assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(d) 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.

33 NON-ADJUSTING SUBSEQUENT EVENTS

(a) On 20 January 2010, the Company entered into a placing agreement and subscription agreement with a placing agent and Mr Yang Xin Min, a major shareholder and a director of the Company, to subscribe and place 100,000,000 new ordinary shares at the placing price and subscription price of HK$0.495 per share.

(b) On 9 March 2010, CDIL entered into a non-binding letter of intent (the "Letter of Intent") with Danyang Century New Energy Resources Co., Limited ("Danyang Century New Energy"). Pursuant to the Letter of Intent, CDIL intends to invest in Danyang Century New Energy and become the holder of not less than 51% equity interest in Danyang Century New Energy.

(Expressed in Renminbi unless otherwise indicated)

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these consolidated financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
Amendment to IAS 27	Consolidated and separate Financial statements	1 July 2009
Amendments to IFRS 2	Share-based payment - Group cash-settled share-based payment transactions	1 January 2010
Improvements to IFRSs 2009		1 January 2010
Amendments to IAS 32	Financial instrument: Presentation - Classification of rights issues	1 February 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Revised IAS 24	Related party disclosures	1 January 2011
IFRS 9	Financial instruments	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be 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.

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 Thursday, 27 May 2010 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 2009.

2. (a) To re-elect Ms. Huang Yue Qin as a director of the Company.

   (b) To re-elect Mr. Zhou Quan as a director of the Company.

   (c) To re-elect Mr. Fang Guo Hong as a director of the Company.

   (d) To re-elect Professor Ji Chang Ming as a director of the Company.

   (e) To re-elect Mr. Poon Lai Yin Michael as a director of the Company.

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

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

4. 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. 4A 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. 4B 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.”

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

By Order of the Board
Li Mei Kuen
Company Secretary

Hong Kong, 29 April 2010

Notice of Annual General Meeting

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 25 May 2010 (Tuesday) to 27 May 2010 (Thursday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at 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 24 May 2010 (Monday).

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 4B is set out in Appendix I to the Company's circular to shareholders dated 29 April 2010.