1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its place of business is Suite 2611, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 24 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 3 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency for the Group's consolidated financial statements and the functional currency of the principal operating subsidiaries of the Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	10 – 30 years
Machinery and equipment	5 – 20 years
Office equipment and fixtures	5 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(d) Leases

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of five years unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Intangible assets are amortised from the date they are available for use.

(f) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure. 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(i) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(j) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(l) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(q) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income in the period in which they become receivable.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

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

(t) Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Segment reporting *(continued)*

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

(u) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except for inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 expenditures 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 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 is remote.

(w) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

3. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and intangible assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for the Group's property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets. Management will revise the depreciation and amortisation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Renminbi. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to interest-rate risk arises from its interest-bearing borrowings. These borrowings bear interest at variable rates varied with the then prevailing market condition.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

The Group's turnover which represents sales of zirconium compounds, electronic materials and electronic ceramics, new energy materials and rechargeable batteries are as follows:

	2006 RMB'000	2005 RMB'000
Turnover		
Sales of goods	**446,719**	425,767
Other income		
— Government grants	**750**	—
— Interest income	**877**	417
— Others	**660**	1,903
	2,287	2,320

Primary reporting format - geographical segments

The Group operates within one geographical segment in the PRC. All segment assets, liabilities and capital expenditures are located in the PRC and therefore no geographical segments are presented, except for the segment revenue and segment results. Segment revenue and segment results are presented based on geographical location of customers.

Secondary reporting format - business segments

The Group's business is mainly categorised into four business segments:

- zirconium compounds;
- electronic materials and electronic ceramics;
- new energy materials; and
- rechargeable batteries

5. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

(continued)

(i) Primary reporting format - geographical segments

	Japan		The USA		The PRC		The Netherlands		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	39,405	39,059	117,114	108,027	202,188	188,241	52,918	50,916	35,094	39,524	446,719	425,767
Segment results	7,356	10,262	26,220	33,452	53,351	43,364	9,592	7,055	9,005	11,982	105,524	106,115
Interest income											877	417
Unallocated cost											(27,689)	(33,308)
Profit from operations											78,712	73,224
Finance costs											(1,202)	(557)
Profit before tax											77,510	72,667
Income tax expense											(19,713)	(10,781)
Profit for the year											57,797	61,886

(ii) Secondary reporting format - business segments

	Turnover		Carrying amount of segment assets		Capital expenditure	
	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zirconium compounds	402,481	365,178	272,731	243,229	17,395	34,130
Electronic materials and electronic ceramics	3,866	1,341	18,265	20,562	1,277	1,148
New energy materials	28,151	45,439	49,951	64,372	1,450	1,824
Rechargeable batteries	12,221	13,809	54,450	50,754	74	1,847
	446,719	425,767	395,397	378,917	20,196	38,949
Unallocated assets	—	—	262,137	231,293	261	703
	446,719	425,767	657,534	610,210	20,457	39,652

6. FINANCE COSTS

	2006	2005
	RMB'000	*RMB'000*
Interest on short-term bank loan	**421**	—
Interest on trust receipt loans	**781**	557
	1,202	557

7. INCOME TAX EXPENSE

	2006	2005
	RMB'000	*RMB'000*
Hong Kong profits tax	**—**	—
PRC enterprise income tax		
— current	**19,713**	10,781
	19,713	10,781

(a) No provision for Hong Kong profits tax is required since the Group has no assessable profit sourced in Hong Kong for the year (2005: Nil).

7. INCOME TAX EXPENSE *(continued)*

(b) Tax charge on profits assessable in the PRC have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	2006	2005
	RMB'000	*RMB'000*
Profit before tax	**77,510**	72,667
Tax at applicable tax rate of 24% (2005: 12%)	**18,602**	8,720
Tax effect of expenses / income that are not deductible / taxable	**1,111**	1,914
Tax effect of unrecognised tax losses	**—**	147
Income tax expense	**19,713**	10,781

Note: Yixing Xinxing Zirconium Company Limited ("Yixing Zirconium") and Yixing Better Batteries Co., Ltd. ("Better Batteries") are wholly-owned subsidiaries of the Company incorporated in the PRC, and therefore subject to PRC Enterprise Income Tax ("EIT") at local statutory rate. Pursuant to the relevant income tax laws in the PRC, Yixing Zirconium and Better Batteries are entitled to income tax exemption for the first and second profit-making years and a 50% reduction in EIT for the following three years. Starting from January 2003, the applicable rate of EIT for Yixing Zirconium is 12% (being 50% of the standard rate for foreign enterprises located in coastal open economic regions) and is changed to 24% starting from January 2006. As a result, the provision for EIT is calculated at 24% (2005: 12%) on the assessable profit for the year. No EIT provision is made for Better Batteries as it had no assessable profit for the year.

7. INCOME TAX EXPENSE *(continued)*

(c) At the balance sheet date, the Group had unprovided deferred tax assets which arose from the followings:

	2006	2005
	RMB'000	*RMB'000*
Tax losses:		
Hong Kong	**5,532**	5,532
PRC	**—**	—
	5,532	5,532

Tax losses in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in entities which have been loss-making for some time or in the directors' opinion, it is uncertain whether future taxable profits would arise to offset against these losses.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

8. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging the following:

	2006 RMB'000	2005 RMB'000
Auditor's remuneration	**502**	468
Costs of inventories sold	**328,668**	303,026
Depreciation	**15,138**	13,697
Amortisation of intangible assets (included in cost of sales)	**641**	1,000
Exchange losses	**5,751**	3,403
Research and development expenditure	**11,666**	3,347
Operating lease charges		
In respect of office premises in Hong Kong	**534**	508
In respect of land use rights outside Hong Kong	**1,351**	1,202
	1,885	1,710
Allowance for inventories (included in other operating expenses)	**—**	1,543
Impairment on intangible assets and deferred expenses (included in other operating expenses)	**—**	1,977
Impairment on machinery and equipment (included in other operating expenses)	**—**	2,500
Staff costs including directors' emoluments *(Note 11)*		
Wages and salaries	**16,934**	17,187
Retirement benefit costs	**1,345**	1,010
Other social welfare costs	**407**	337
	18,686	18,534

9. DIVIDENDS

	2006 *RMB'000*	2005 *RMB'000*
Interim, paid	**—**	—
Final, proposed	**15,857**	17,303
	15,857	17,303

At a meeting of the board of directors held on 12 April 2007, a final dividend of HK2.8 cents (2005: HK3.3 cents) per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following:

	2006 *RMB'000*	2005 *RMB'000*
Earnings		
Profit attributable to equity holders of the Company, used in the basic earnings per share calculation	**57,797**	61,886

	2006	2005
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**504,170,946**	504,170,946

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the two years ended 31 December 2006 and 2005.

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Details of emoluments of the directors of the Company disclosed pursuant to the Listing Rules and section 161 of the Hong Kong Companies Ordinance are as follows:

For the year ended 31 December 2006

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefits scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Yang Xin Min	—	1,749	—	6	1,755
Mr. Li Fu Ping	—	194	—	3	197
Ms. Huang Yue Qin	—	454	—	3	457
Mr. Zhou Quan	—	212	—	3	215
Independent non-executive directors:					
Mr. Shi You Chun	60	—	—	—	60
Mr. Guo Jing Mao	60	—	—	—	60
Mr. Cheng Faat Ting Gary	70	—	—	—	70
Total	190	2,609	—	15	2,814

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

For the year ended 31 December 2005

Name of director	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement benefits scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Yang Xin Min	—	1,820	—	5	1,825
Mr. Li Fu Ping	—	174	—	2	176
Ms. Huang Yue Qin	—	460	—	2	462
Mr. Zhou Quan	—	174	—	2	176
Independent non-executive directors:					
Mr. Shi You Chun	60	—	—	—	60
Mr. Guo Jing Mao	60	—	—	—	60
Mr. Cheng Faat Ting Gary	73	—	—	—	73
Total	193	2,628	—	11	2,832

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

During the year, no emoluments were paid or payable by the Group to the directors and five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2005: Nil).

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

The five highest paid employees for the year ended 31 December 2006 included four (2005: four) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining one (2005: one) highest paid employee for the year ended 31 December 2006, which fell within the "Nil to HK$1,000,000" band, are as follows:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**542**	562
Bonus paid and payable	**45**	47
Retirement benefit scheme contributions	**12**	12
	599	621

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2005	58,318	165,390	1,414	2,412	30,511	258,045
Additions	887	18,697	47	466	19,555	39,652
Transfers	39,005	—	—	—	(39,005)	—
Exchange differences	—	—	(22)	—	2	(20)
At 31 December 2005 and at 1 January 2006	98,210	184,087	1,439	2,878	11,063	297,677
Additions	1,112	19,199	113	—	33	20,457
Transfers	300	8,159	—	—	(8,459)	—
At 31 December 2006	99,622	211,445	1,552	2,878	2,637	318,134
Accumulated depreciation and impairment						
At 1 January 2005	10,885	23,117	777	934	—	35,713
Charge for the year	3,367	9,544	277	509	—	13,697
Impairment loss	—	2,500	—	—	—	2,500
Exchange differences	—	—	(18)	—	—	(18)
At 31 December 2005 and at 1 January 2006	14,252	35,161	1,036	1,443	—	51,892
Charge for the year	3,524	10,878	160	576	—	15,138
At 31 December 2006	17,776	46,039	1,196	2,019	—	67,030
Carrying amount						
At 31 December 2006	81,846	165,406	356	859	2,637	251,104
At 31 December 2005	83,958	148,926	403	1,435	11,063	245,785

The Group's buildings and construction in progress are all located in the PRC.

13. PREPAID LAND LEASE PAYMENTS

	2006 RMB'000	2005 RMB'000
At 1 January	**54,946**	56,148
Amortisation of prepaid land lease payments	**(1,351)**	(1,202)
At 31 December	**53,595**	54,946
Current portion	**(1,351)**	(1,202)
Non-current portion	**52,244**	53,744

The Group's prepaid land lease payments represent payments for land use rights in the PRC under medium term leases.

14. INTANGIBLE ASSETS

Technical know-how

	2006 RMB'000	2005 RMB'000
Cost		
At 1 January	**4,200**	5,000
Write off during the year	**—**	(800)
At 31 December	**4,200**	4,200
Accumulated amortisation		
At 1 January	**2,100**	1,500
Charge for the year	**641**	1,000
Write off during the year	**—**	(400)
At 31 December	**2,741**	2,100
Carrying amount		
At 31 December	**1,459**	2,100

15. PREPAYMENTS AND DEPOSITS

	2006 RMB'000	2005 RMB'000
Prepayment for purchase of land use rights	**7,220**	7,220
Deposits for purchase of machinery and equipment	**4,831**	8,031
	12,051	15,251

16. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**33,494**	38,083
Work in progress	**4,744**	4,370
Finished goods	**15,229**	23,268
	53,467	65,721

17. TRADE RECEIVABLES

The aging analysis of trade receivables after provision for bad and doubtful debts is as follows:

	2006 RMB'000	2005 RMB'000
0 - 90 days	**48,857**	40,074
91 - 180 days	**1,763**	710
181 - 365 days	**749**	1,322
More than 1 year	**717**	358
	52,086	42,464

Normally 30 to 60 days credit term is granted to local customers in the PRC and 60 to 90 days credit term is granted to overseas customers.

18. BANK AND CASH BALANCES

As at 31 December 2006, the bank and cash balances of the Group denominated in RMB amounted to RMB146,606,000 (2005: RMB48,547,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulation and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

19. TRADE AND BILL PAYABLES

The aging analysis of trade and bill payables is as follows:

	2006	2005
	RMB'000	*RMB'000*
0 - 90 days	**12,653**	17,073
91 - 180 days	**1,080**	266
181 - 365 days	**871**	1,163
More than 1 year	**3,297**	2,214
	17,901	20,716

20. INTEREST-BEARING BORROWINGS

	2006	2005
	RMB'000	*RMB'000*
Short-term bank loan	**10,118**	—
Trust receipt loans	**16,576**	20,809
	26,694	20,809

(a) Banking facilities

At 31 December 2006, the Group's banking facilities were secured by corporate guarantee of the Company.

(b) The effective interest rates per annum at the balance sheet date are as follows:

	2006	2005
Short-term bank loan	**LIBOR+2%**	—
Trust receipt loans	**LIBOR+2%**	LIBOR+2%

(c) The carrying amounts of the Group's borrowings are denominated in United States Dollar.

21. SHARE CAPITAL

	2006 RMB'000	2005 RMB'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**106,000**	106,000
Issued and fully paid:		
504,170,946 ordinary shares of HK$0.1 each	**53,529**	53,529

22. 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 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.

No option was granted during the two years ended 31 December 2006 and 2005 or outstanding at 31 December 2006 and 2005.

23. (a) BALANCE SHEET OF THE COMPANY

	2006 RMB'000	2005 RMB'000
Investments in subsidiaries	**162,523**	169,633
Other receivables	**14,199**	26,280
Bank and cash balances	**101**	144
Accruals and other payables	**(6,356)**	(1,227)
Net assets	**170,467**	194,830
Capital and reserve		
Share capital	**53,529**	53,529
Reserves	**116,938**	141,301
	170,467	194,830

23. (b) RESERVES OF THE COMPANY

	Share premium	Foreign currency translation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005	167,873	220	(3,726)	164,367
Translation differences and net expense recognised directly in equity	—	(3,608)	—	(3,608)
Loss for the year	—	—	(1,758)	(1,758)
Total recognised income and expense for the year	—	(3,608)	(1,758)	(5,366)
Dividend paid	(17,700)	—	—	(17,700)
At 31 December 2005	150,173	(3,388)	(5,484)	141,301
Representing:				
2005 final dividend proposed	17,303			
Others	132,870			
	150,173			
At 1 January 2006	150,173	(3,388)	(5,484)	141,301
Translation differences and net expense recognised directly in equity	—	(5,224)	—	(5,224)
Loss for the year	—	—	(1,836)	(1,836)
Total recognised income and expense for the year	—	(5,224)	(1,836)	(7,060)
Dividend paid	(17,303)	—	—	(17,303)
At 31 December 2006	132,870	(8,612)	(7,320)	116,938
Representing:				
2006 final dividend proposed	15,857			
Others	117,013			
	132,870			

24. SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2006 are as follows:

Name	Place and date of incorporation/ establishment	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities and place of operation
			Direct holding	Indirect holding	
Kingweston Technology Limited ("Kingweston")	British Virgin Islands 6 January 2000	US$2,500,000	100%	—	Investment holding in Hong Kong
Yixing Xinxing Zirconium Company Limited ("Yixing Zirconium") *(Note)*	The People's Republic of China 7 June 2000	US$10,500,000	—	100%	Research, development, manufacturing and sales of zirconium compounds, electronic materials, electronic ceramics and new energy materials in the PRC
Century Dragon Investment Limited ("Century Dragon")	Hong Kong 5 June 2000	HK$15,000,000	—	100%	Leasing of the Group's office premises in Hong Kong, provision of administrative services and general trading in Hong Kong
Yixing Better Batteries Co., Ltd. ("Better Batteries") *(Note)*	The People's Republic of China 5 January 2004	US$1,200,000	—	100%	Research, development, manufacturing and sales of batteries

Note: Yixing Zirconium and Better Batteries are foreign enterprises with an operating period of 30 years commencing on 7 June 2000 and on 5 January 2004, respectively.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

Certain property, plant and equipment acquired during the year ended 31 December 2006 were satisfied by way of utilising the deposit paid in previous year which amounted to approximately RMB17,100,000 (2005: RMB11,654,000).

26. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2006 (2005: Nil).

27. CAPITAL AND OTHER COMMITMENTS

	2006	2005
	RMB'000	*RMB'000*
Contracted but not provided for		
— purchases of machinery and equipment	**5,525**	3,967
— construction in progress	**9,601**	9,051
— research	**16,875**	—

28. LEASE COMMITMENTS

At 31 December 2006, the Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2006	2005
	RMB'000	*RMB'000*
Within one year	**793**	247
After one year but within five years	**8,435**	7,180
	9,228	7,427

29. RELATED PARTY TRANSACTIONS

In addition to the transaction and balances disclosed elsewhere in these financial statements, during the year, the Group entered into transactions with its related parties as summarised below:

		2006	2005
		RMB'000	*RMB'000*
Water supply from a related party	*(a)*	**1,955**	2,131
Due to a related company	*(b) and (c)*	**1,138**	1,138
Due to a director of the Company	*(b)*	**3,386**	3,341

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

(b) The amounts due are included in accruals and other payables. The amounts due are unsecured, non-interest bearing and repayable on demand.

(c) The parties are related to the extent that Mr. Yang Xin Min is a substantial shareholder and director of the Company. He is also the sole owner of the related company.

(d) Pursuant to a trademark licensing agreement dated 12 July 2000 entered into between Yixing Zirconium and a related company whereas the related company has agreed to grant exclusive rights to Yixing Zirconium for the use of the "Long Jing" trademarks in specified areas at nil consideration.

(e) The key management personnel compensation paid by the Group during the year is disclosed in note 11 to the financial statements.

30. EVENTS AFTER BALANCE SHEET DATE

Pursuant to a placing agreement dated 4 January 2007 entered into between Mr. Yang Xin Min ("Mr. Yang"), a substantial shareholder of the Company, and a placing agent, 60,000,000 existing ordinary shares of HK$0.1 each in the Company were placed to independent investors at a price of HK$0.74 per share. Upon completion of the placement of shares and pursuant to a subscription agreement entered into between the Company and Mr. Yang, Mr. Yang subscribed for 60,000,000 new ordinary shares of HK$0.1 each in the Company at a price of HK$0.74 per share. The net proceeds raised from the subscription were approximately HK$42,400,000.

31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes include the reclassification of trust receipt loans previously classified under trade and bill payables to interest-bearing borrowings (note 20), and the resultant changes to the consolidated cash flow statement. The new classification of the above items is considered a more appropriate presentation of the state of affairs of the Group.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 12 April 2007.