



CHINA ZIRCONIUM LIMITED 中國鋯業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(HKEX — Stock Code: 0395)

(TSX — Trading Symbol: CZL)

2009

INTERIM REPORT



Corporate Information

Executive Directors

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

Independent Non-executive Directors

Mr. Cheng Faat Ting Gary
Mr. Carl F. Steiss
Mr. Victor Tong
Mr. Andrew Leinwand (resigned on 1 June 2009)

Audit Committee

Mr. Cheng Faat Ting Gary (Chairman)
Mr. Carl F. Steiss
Mr. Victor Tong

Remuneration Committee

Mr. Cheng Faat Ting Gary (Chairman)
Mr. Carl F. Steiss
Mr. Yang Xin Min

Nomination Committee

Mr. Cheng Faat Ting Gary (Chairman)
Mr. Carl F. Steiss

Auditors

KPMG LLP

Principal Bankers

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

Legal Advisers

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

Qualified Accountant and Company Secretary

Ms. Li Mei Kuen

Registered Office

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Principal Share Registrar

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

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716
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183 Queen's Road East
Wan Chai
Hong Kong

Stock Name

China Zirconium

Stock Code/Trading Symbol

HKEX: 0395
TSX: CZL

The Board of Directors (the “Board”) of China Zirconium Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 together with the comparative figures. The condensed consolidated interim financial statements (the “Interim Financial Statements”) have not been audited, but have been reviewed by the Company’s Audit Committee.

Condensed Consolidated Income Statement

For the six months ended 30 June 2009

	Notes	Unaudited Six months ended 30 June		Unaudited Three months ended 30 June	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Turnover	3	56,146	292,239	31,216	162,102
Cost of sales		(62,355)	(216,196)	(32,745)	(119,122)
Gross (loss)/profit		(6,209)	76,043	(1,529)	42,980
Other income		567	761	12	—
Distribution costs		(1,697)	(7,387)	(930)	(4,160)
Administrative expenses		(8,410)	(8,868)	(4,278)	(4,700)
Other operating expenses		(323)	(1,028)	(43)	(42)
(Loss)/Profit from operations		(16,072)	59,521	(6,768)	34,078
Net finance costs	4(a)	(24)	(6,453)	(219)	(4,303)
(Loss)/Profit before taxation	4	(16,096)	53,068	(6,987)	29,775
Income tax	5	—	(14,222)	—	(7,783)
(Loss)/Profit for the period		(16,096)	38,846	(6,987)	21,992
Attributable to:					
Equity holders of the Company		(16,005)	38,846	(6,964)	21,992
Minority interest		(91)	—	(23)	—
		(16,096)	38,846	(6,987)	21,992
Dividends	6	—	—	—	—
Basic (loss)/earnings per share (RMB)	7	(0.22)	0.55	(0.09)	0.31
Diluted (loss)/earnings per share (RMB)	7	(0.22)	N/A	(0.09)	N/A



Condensed Consolidated Balance Sheet

At 30 June 2009

		Unaudited 30 June 2009 <i>RMB'000</i>	Audited 31 December 2008 <i>RMB'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	322,587	303,186
Construction in progress		58,383	85,938
Lease prepayments		67,235	68,037
Intangible assets		102	174
Long-term prepayments		35,122	35,119
Deferred tax assets		6,246	6,246
		<u>489,675</u>	<u>498,700</u>
Current assets			
Inventories		58,438	48,263
Trade and other receivables and prepayments	9	32,654	52,681
Amount due from related parties	15(b)	59	170
Lease prepayments		1,633	1,617
Cash and cash equivalents	10	268,583	278,403
		<u>361,367</u>	<u>381,134</u>
Total assets		<u>851,042</u>	<u>879,834</u>

**Condensed Consolidated Balance Sheet**

At 30 June 2009

		Unaudited	Audited
		30 June	31 December
		2009	2008
	<i>Notes</i>	RMB'000	RMB'000
Current liabilities			
Trade and other payables	11	55,076	54,167
Amounts due to related parties	15(b)	8,309	10,185
Interest-bearing borrowings		—	6,832
Current taxation		16,282	19,637
		79,667	90,821
Net current assets			
		281,700	290,313
Non-current liabilities			
Deferred tax liabilities		530	530
NET ASSETS			
		770,845	788,483
Capital and reserves			
Share capital	13	74,242	74,242
Retained profits		345,995	362,000
Reserves		345,046	348,382
Total equity attributable to equity holders of the Company			
		765,283	784,624
Minority interest		5,562	3,859
TOTAL EQUITY			
		770,845	788,483



Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	2,674	76,780
Net cash used in investing activities	(4,088)	(48,464)
Net cash used in financing activities	(9,563)	(14,977)
Effects of exchange rate changes	1,157	(597)
Net (decrease)/increase in cash and cash equivalents	(9,820)	12,742
Cash and cash equivalents at 1 January	278,403	253,152
Cash and cash equivalents at 30 June	<u>268,583</u>	<u>265,894</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Unaudited									
	Six months ended 30 June 2009									
	Share Capital	Merger Reserve	Share Premium	Statutory Reserves	Capital Reserve	Exchange Reserve	Retained Profits	Total	Minority Interest	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	74,242	(11,085)	271,980	92,749	637	(5,899)	362,000	784,624	3,859	788,483
Contribution by										
minority interest	—	—	—	—	—	—	—	—	1,094	1,094
Loss for the period	—	—	—	—	—	—	(16,005)	(16,005)	(91)	(16,096)
2008 final dividend	—	—	(3,784)	—	—	—	—	(3,784)	—	(3,784)
Exchange differences	—	—	—	—	—	448	—	448	700	1,148
At 30 June 2009	<u>74,242</u>	<u>(11,085)</u>	<u>268,196</u>	<u>92,749</u>	<u>637</u>	<u>(5,451)</u>	<u>345,995</u>	<u>765,283</u>	<u>5,562</u>	<u>770,845</u>

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

Notes to the Unaudited Interim Financial Statements

(Expressed in Renminbi unless otherwise stated)

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

1 Basis of Preparation

China Zirconium Limited (the “Company”) was incorporated in the Cayman Islands on 18 July 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. This interim financial statements comprises the Company and its subsidiaries (together referred to as the “Group”) and has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”, promulgated by the International Accounting Standards Board (“IASB”).

The interim financial statements do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

The measurement basis used in the preparation of the interim financial 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 interim financial statements, the Group adopted Renminbi as its presentation currency, rounded to the nearest thousand.

2. Changes in accounting policies

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

- IFRS 8 "Operating Segments" 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 on geographical areas. The new 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. As this is the first period in which the Group has presented segment information in accordance with IFRS 8, additional explanation has been included in the interim financial statements which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

- The Group adopted revised IAS 23 “Borrowing Costs” which constitute a change in accounting policy for borrowing costs as it removes the option to expense borrowing costs and requires that an entity capitalise the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. In accordance with the transitional provisions, the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The adoption of revised IAS 23 has no significant impact on the Group’s operating results or financial positions for the current accounting period.

The remainder of the developments has no material impact on the Group’s financial statements.

3. Turnover and Segment Information

Turnover represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes. On the 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 senior executive management, the Group has identified the following three segments:

- **Zirconium and New Energy Materials:** this segment sells zirconium compounds and zirconium-related new energy materials products which are manufactured in the Group’s manufacturing facilities located in the PRC. These products are sold to customers in the United States, Japan, PRC, the Netherlands and other countries.
- **Rechargeable Batteries:** this segment sells rechargeable batteries which are manufactured in the Group’s manufacturing facilities located in the PRC. This segment’s products are primarily sold to customers in the PRC market.

- Mineral Resources: this segment currently operates the Group's mineral concentrates separation and processing facilities located in Indonesia. It produces zircon sand which is either sold internally to the Group's zirconium manufacturing facilities or to external customers primarily located in the PRC.

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

Information regarding the Group's reportable segments for the period is set out below:

	Zirconium and New Energy Materials (Unaudited)		Rechargeable Batteries (Unaudited)		Mineral Resources (Unaudited)		Total (Unaudited)	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from								
external customers	52,189	286,017	3,957	6,222	—	—	56,146	292,239
Inter-segment revenue	615	12,948	—	—	2,379	—	2,994	12,948
Reportable segment turnover	52,804	298,965	3,957	6,222	2,379	—	59,140	305,187
(Loss)/Profit from operations	(14,338)	61,669	240	(292)	102	—	(13,996)	61,377
Net finance costs	274	(6,371)	5	(6)	(289)	—	(10)	(6,377)
Reportable segment (loss)/profit before taxation	(14,064)	55,298	245	(298)	(187)	—	(14,006)	55,000

	Zirconium and							
	New Energy				Rechargeable			
	Materials		Batteries		Mineral Resources		Total	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
2009	2008	2009	2008	2009	2008	2009	2008	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Reportable segment								
assets	<u>856,656</u>	<u>883,865</u>	<u>16,476</u>	<u>15,331</u>	<u>11,541</u>	<u>8,480</u>	<u>884,673</u>	<u>907,676</u>
Reportable segment								
liabilities	<u>110,805</u>	<u>108,146</u>	<u>4,081</u>	<u>3,180</u>	<u>190</u>	<u>604</u>	<u>115,076</u>	<u>111,930</u>

(b) Reconciliation of reportable segment turnover, profit or loss, assets and liabilities

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Turnover		
Reportable segment turnover	59,140	305,187
Elimination of inter-segment revenue	(2,994)	(12,948)
Consolidated turnover	<u>56,146</u>	<u>292,239</u>
(Loss)/Profit		
Reportable segment (loss)/profit	(14,006)	55,000
Unallocated head office and corporate expenses	(2,090)	(1,932)
Consolidated (loss)/profit before taxation	<u>(16,096)</u>	<u>53,068</u>



	30 June 2009 RMB'000	31 December 2008 RMB'000
Assets		
Reportable segment assets	884,673	907,676
Elimination of inter-segment receivables	(68,755)	(62,047)
Deferred tax assets	6,246	6,246
Unallocated head office and corporate assets	28,878	27,959
	<u>851,042</u>	<u>879,834</u>
Liabilities		
Reportable segment liabilities	115,076	111,930
Elimination of inter-segment payables	(68,755)	(62,047)
Deferred tax liabilities	530	530
Unallocated head office and corporate liabilities	33,346	40,938
	<u>80,197</u>	<u>91,351</u>

4 (Loss)/Profit before Taxation

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

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
(a) Net finance costs:		
Interest income	(76)	(105)
Interest on bank borrowings wholly repayable within five years	51	146
Net exchange loss	49	6,412
	<u>24</u>	<u>6,453</u>
(b) Staff costs:		
Salaries, wages and other benefits	9,581	8,604
Contributions to defined contribution retirement scheme	429	358
	<u>10,010</u>	<u>8,962</u>
(c) Other items:		
Amortisation		
— lease prepayments	857	678
— intangible assets	72	365
Depreciation	9,211	8,148
Research and development costs	—	737
Operating lease charges in respect of the office premises in Hong Kong	323	304
Cost of inventories	64,733	216,196

5 Income Tax

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
<hr/>		
Current tax — the People's Republic of China (the "PRC") income tax		
Provision for the period	—	14,014
Deferred tax		
Origination and reversal of temporary differences	—	208
	<hr/>	<hr/>
	—	14,222
	<hr/>	<hr/>

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.
- (ii) No provision for Hong Kong Profits Tax has been made as the Company's subsidiary domiciled in Hong Kong incurred losses for the purposes of Hong Kong Profits Tax for the six months ended 30 June 2009.
- (iii) Pursuant to the income tax rules and regulations of the PRC and Indonesia, the provision for income tax of the Group is calculated based on the following rates:

	Notes	Six months ended 30 June	
		2009 %	2008 %
Yixing Xinxing Zirconium Company Limited ("YXZL")	(1)	—	25%
Yixing Better Batteries Company Limited ("YBBL")	(2)	—	—
Binhai Dragon Crystal Chemicals Company Limited ("BHDC")	(3)	—	—
P.T. Asia Prima Resources ("APR")	(4)	—	N/A

Notes:

- (1) Pursuant to the relevant income tax laws in the PRC, YXZL is subject to Enterprise Income Tax ("EIT") at a tax rate of 25% (six months ended 30 June 2008: 25%) on the assessable profit for the period. No EIT provision is made for YXZL as it incurred tax losses for the six months ended 30 June 2009.
- (2) Pursuant to the relevant income tax laws in the PRC, YBBL is subject to EIT at a tax rate of 25% (Six months ended 30 June 2008: 25%) on the assessable profit. No EIT provision is made for YBBL as it incurred tax losses for the six months ended 30 June 2008 and is entitled to tax exemption for the six months ended 30 June 2009.
- (3) Pursuant to the relevant income tax laws in the PRC, BHDC is subject to EIT at a tax rate of 25% on the assessable profit (Six months ended 30 June 2008: 25%). No EIT provision is made for BHDC as it has no assessable profit for both six months ended 30 June 2008 and 2009.

- (4) *APR was established on 1 July 2008. No corporate income tax provision is made as it has no assessable profits for the period. 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.*

The deferred tax assets/liabilities of subsidiaries in the PRC are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

6 Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (Six months ended 30 June 2008: Nil).

7 (Loss)/Earnings per Share

(a) Weighted average number of ordinary shares outstanding

For the purposes of calculating the basic and diluted earnings per share, the weighted average number of ordinary shares outstanding for the six months ended 30 June 2008 has been retrospectively adjusted for the consolidation of the Company's ordinary shares on a 10 for 1 basis which took place on 30 June 2008.

(b) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the six months ended 30 June 2009 is based on the loss attributable to equity holders of the Company of RMB16,005,000 (Six months ended 30 June 2008: profit of RMB38,846,000) and the weighted average number of shares in issue during the period of 71,616,994 (Six months ended 30 June 2008 (restated): 70,967,094).

(c) Diluted (loss)/earnings per share

The calculation of diluted loss per share for the six months ended 30 June 2009 is based on the loss attributable to the equity holders of the Company of RMB16,005,000 and the weighted average number of shares in issue during the period after adjusting for the effect of potential dilutive shares, assuming they were exercised.

Weighted average number of shares (diluted):

	2009
	<i>'000</i>
Weighted average number of shares	71,617
Effect of deemed issue of shares under the Company's Share Options Scheme at consideration of HK\$2.85 per share	—
Weighted average number of shares (diluted)	<u>71,617</u>

No disclosure of diluted earnings per share was presented for the six months ended 30 June 2008 as there was no potential dilutive ordinary shares outstanding during the period.

8 Property, Plant and Equipment

During the six months ended 30 June 2009, the Group acquired items of plant and machinery with a cost of RMB1,179,000 (six months ended 30 June 2008: RMB48,464,000). Total net book value of the machinery and equipment being disposed of by the Group during the six months ended 30 June 2009 was RMB717,000 (Six months ended 30 June 2008: Nil).

At 30 June 2009, the Group was 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 RMB42,615,000 (31 December 2008: RMB14,932,000).

9 Trade and Other Receivables and Prepayments

	30 June 2009 (unaudited) RMB'000	31 December 2008 (audited) RMB'000
Trade receivables	24,187	34,566
Less: Allowance for doubtful debts	(2,515)	(3,720)
	<u>21,672</u>	<u>30,846</u>
Advance payments to suppliers	4,837	16,657
Deposits, prepayments and other receivables	6,145	5,178
	<u>32,654</u>	<u>52,681</u>

(a) Ageing analysis

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

	30 June 2009 (unaudited) RMB'000	31 December 2008 (audited) RMB'000
Current	<u>16,133</u>	<u>21,015</u>
Less than 3 months past due	4,654	8,897
More than 3 months but less than 1 year past due	237	286
Over 1 year past due	<u>648</u>	<u>648</u>
Amounts past due	<u>5,539</u>	9,831
	<u>21,672</u>	<u>30,846</u>

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

(b) Impairment of trade receivables

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

At 30 June 2009, RMB2,920,000 (31 December 2008: RMB4,125,000) of the Group's trade receivables were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB2,515,000 (31 December 2008: RMB3,720,000) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	30 June 2009 (unaudited) RMB'000	31 December 2008 (audited) RMB'000
Neither past due nor impaired	16,133	21,015
Less than 3 months past due	4,654	8,897
More than 3 months but less than 1 year past due	237	286
Over 1 year past due	243	243
	5,134	9,426
	21,267	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.

10 Cash and Cash Equivalents

	30 June 2009 (unaudited) RMB'000	31 December 2008 (audited) RMB'000
Deposits with banks	331	1,627
Cash at bank and in hand	268,252	276,776
	<u>268,583</u>	<u>278,403</u>

11 Trade and Other Payables

	30 June 2009 (unaudited) RMB'000	31 December 2008 (audited) RMB'000
Trade payables	18,809	8,114
Receipts in advance from customers	3,642	1,913
Payable for construction costs and acquisition of property, plant and equipment	3,389	6,738
Other payables and accruals	29,236	37,402
	<u>55,076</u>	<u>54,167</u>

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

	30 June 2009 (unaudited) RMB'000	31 December 2008 (audited) RMB'000
Within 3 months	16,550	5,145
3 months to 6 months	328	1,723
6 months to 1 year	1,640	378
Over 1 year	291	868
	<u>18,809</u>	<u>8,114</u>

12 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 may, at its discretion, grant share options (“Options”) to the eligible persons as defined in the Scheme. The Scheme will expire on 23 September 2012.

During the six months ended 30 June 2008 and 2009, no Options were granted under the Scheme.

The terms and conditions of the unexpired and unexercised Options at 30 June 2009 are as follows:

Date of grant	Exercise period	Number of Options			At 30 June 2009	Exercise Price HK\$
		At 1 January 2009	Granted during the period	Exercised during the period		
Executive Director						
Yang Xin Min	15/8/2008 - 15/8/2013	80,000	—	—	80,000	6.60
Huang Yue Qin	15/8/2008 - 15/8/2013	30,000	—	—	30,000	6.60
Zhou Quan	15/8/2008 - 15/8/2013	30,000	—	—	30,000	6.60
Li Fu Ping	15/8/2008 - 15/8/2013	30,000	—	—	30,000	6.60

	Date of grant	Exercise period	Number of Options				Exercise Price HK\$
			At 1 January 2009	Granted during the period	Exercised during the period	At 30 June 2009	
Independent							
Non-Executive Director							
Cheng Faat Ting Gary	15/8/2008	15/8/2008 - 15/8/2013	10,000	—	—	10,000	6.60
Andrew Leinwand (<i>Note b</i>)	15/8/2008	15/8/2008 - 15/8/2013	10,000	—	—	10,000	6.60
Carl F. Steiss	15/8/2008	15/8/2008 - 15/8/2013	10,000	—	—	10,000	6.60
Shi You Chun (<i>Note a</i>)	15/8/2008	15/8/2008 - 15/8/2013	10,000	—	—	10,000	6.60
Victor Tong	1/12/2008	1/12/2008 - 30/11/2013	10,000	—	—	10,000	2.85
Subtotal			220,000	—	—	220,000	
Contracted employee	15/8/2008	15/8/2008 - 15/8/2013	30,000	—	—	30,000	6.60
Third-party consultants in aggregate	15/8/2008	15/8/2008 - 15/8/2013	60,000	—	—	60,000	6.60
Total			310,000	—	—	310,000	

Notes:

- (a) *Mr. Shi You Chun resigned from the position as the independent non-executive director of the Company with effect from 18 September 2008.*
- (b) *Mr. Andrew Leinwand resigned from the position as the independent non-executive director of the Company with effect from 1 June 2009.*



13 Share Capital

The Company has authorised capital of 100,000,000 ordinary shares at HK\$1.00 each. As at 30 June 2009, 71,616,994 shares (31 December 2008: 71,616,994 shares) were issued and fully paid.

14 Commitments

(a) Capital Commitments

	30 June 2009 (unaudited) RMB'000	31 December 2008 (audited) RMB'000
Contracted for	23,292	25,562
Authorised but not contracted for	37,452	37,452
	<u>60,744</u>	<u>63,014</u>

- (b) At 30 June 2009, the Group had a commitment of US\$561,000 (31 December 2008: US\$765,000) equivalent to RMB3,836,000 (31 December 2008: RMB5,261,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

15 Material Related Party Transactions

(a) Recurring transactions

	Unaudited	
	Six months ended 30 June	
	2009	2008
<i>Notes</i>	RMB'000	RMB'000
Water supply from a related party (i)	<u>530</u>	<u>1,003</u>

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 Company to the extent that Ms. Bao Xi Mei, being the spouse of a director of the Company, 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) Amounts due from/(to) related parties

		30 June	31 December
		2009	2008
		(unaudited)	(audited)
	<i>Notes</i>	RMB'000	RMB'000
<hr/>			
Amounts due from related parties:			
— Yang Zhen	(i) and (iv)	59	75
— Directors of the Company	(i)	—	95
		<hr/> 59 <hr/>	<hr/> 170 <hr/>
Amounts due to related parties:			
— Jiangsu Xinxing Chemicals Group Corporation	(i) and (ii)	(1,138)	(1,138)
— Directors of the Company	(i)	(6,652)	(8,539)
— Yixing City Xushe Water Supply Plant	(i) and (iii)	(519)	(508)
		<hr/> (8,309) <hr/>	<hr/> (10,185) <hr/>

Notes:

- (i) *The balances at 30 June 2009 and 31 December 2008 are unsecured, non-interest bearing and repayable on demand.*
- (ii) *The party is related to the extent that Mr. Yang Xin Min, a major shareholder and director of the Company, 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 Company, is the legal representative of 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.*

(c) Key management personnel remuneration

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

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	<u>1,594</u>	<u>1,461</u>

16 Approval of the Unaudited Interim Financial Statements

The unaudited interim financial statements was approved and authorised for issue by the Board on 14 August 2009.

Management Discussion and Analysis

Caution regarding forward-looking statements

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

Review of Results and Operations

The impact of the economic downturn started in the fourth quarter of 2008 and the rapid deterioration of almost all economic benchmarks in the first half year of 2009 has further driven down the market demand for zirconium chemicals. Due to the uncertain market conditions, some of the Company's customers have tightened their inventory policy and have either reduced or temporarily suspended sales orders in the six months period ended 30 June 2009. This accounted for the significant decrease in the Company's turnover for the current period. The Company's total turnover for the six months ended 30 June 2009 decreased by 81% as compared to the same period in the prior year. The dramatic economic downturn in the Company's major overseas markets (the United States, Japan and Netherland/Europe) has led to the significant drop in sales of zirconium chemicals. Sales of new energy materials and rechargeable batteries were indirectly affected by the declining demand for electronic products and small electrical appliances which use rechargeable batteries. The decrease in sales orders led to a low utilisation rate of the Company's zirconium chemicals production facilities which in turn has caused the unit cost of the zirconium chemical products to increase significantly. As a result, the Company reported a negative gross profit and a net loss for the six months ended 30 June 2009.

Distribution costs reduced significantly as a result of the lower level of sales activities in the current period. Net finance costs also decreased significantly from RMB6,453,000 to RMB24,000, mainly resulted from the lower exchange losses incurred in the current period. The exchange losses for the six months period ended 30 June 2008 were mainly resulted from the Group's export sales transactions denominated in United States dollars.

During the six months ended 30 June 2009, there was no change in the income tax rate applicable to the Company's subsidiaries in the PRC and Indonesia. Since all of the Company's subsidiaries were either not generating taxable profit or were entitling to tax exemption during the six months ended 30 June 2009, no tax provision has been made in this period.

Despite the substantial decrease in the Company's sales and operating results, the Company continued to maintain a strong financial position. The Company has no long-term or short-term debt as of 30 June 2009. The Company maintained a healthy current ratio at 4.5:1, which is comparable to the ratio as of 31 December 2008. The minority interest reported in the balance sheet for the current period represented the contribution made by the minority shareholder of the Company's joint venture in Indonesia (the "**Indonesian Joint Venture**") after taking into account its share of the results of the Indonesian Joint Venture for the six months ended 30 June 2009.

Prospects

The management is pleased to see that certain customers started placing new orders in July 2009, after they withheld the orders for over six months. It is anticipated that the Group's results and performance will improve in the second half year of 2009 as compared to the first six months of the year. However, the management is not optimistic in the Group's full year's results given the significant decrease in sales and the negative profit margin generated in the six months period ended 30 June 2009. Given the uncertainty on the depth and duration of the economic downturn, the Company has suspended the capacity expansion at the production plant in Yixing and has temporarily stopped the installation works at the new zirconium chemicals production plant in Binhai (the "**Binhai Plant**"). Management will further suspend the commencement of operations at the Binhai Plant until there is concrete evidence of market recovery.

On the supply side, the price and quantities of zircon supply were relatively stable for the first half year of 2009. The Group will continue to allocate resources for the development of the mineral concentrates processing business, with a view of securing the raw materials supply to its own zirconium chemicals manufacturing facilities, as well as diversifying the Group’s operation into mineral resources-related business. At the same time, the Company’s business for the new type zirconium high temperature battery developed in recent year will be progressing steadily.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2009.

Substantial Shareholder’s and Directors’ Interests in Securities

Substantial Shareholder’s Interests in Securities

As at 30 June 2009, the register of shareholders maintained pursuant to the Securities and Futures Ordinance (the “SFO”) shows that the following shareholders with interests representing 5% or more of the Company’s issued share capital:

Name of Shareholders	Number of Shares	Percentage of total Share Capital
Yang Xin Min	28,787,094	40.20%
CCB International (Holdings) Limited	9,300,000	12.99%

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

Directors' Interests in Securities

As at 30 June 2009, the interests of the directors and chief executive of the Company in the securities of the Company and its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8, stipulated in Section 341 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of Interests	Number of shares and approximate percentage of shares interested
Yang Xin Min	Personal	28,787,094 (40.20%)

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 any director (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid). The Scheme will expire on 23 September 2012.

During the period ended 30 June 2009, no Options (2008: Nil) have been granted under the Scheme. Details of the Options outstanding as at 30 June 2009 were set out in note 12 to the Interim Financial Statements.

Liquidity and Financial Resources

As of 30 June 2009, the Group's cash and cash equivalents totalled RMB268,583,000 compared to RMB278,403,000 as of 31 December 2008. The decreased balance was mainly used in acquiring non-current assets and repaying short-term bank borrowings in the current period.

At 30 June 2009, the Group has unsecured banking facilities amounted to HK\$400,000 (31 December 2008: HK\$400,000) in the form of corporate credit cards and nil (31 December 2008: US\$4,300,000) trade financing facilities.

The Group had no long-term liabilities as at 30 June 2009 and 31 December 2008.

Contingent Liabilities

At 30 June 2009, the Group had no material contingent liabilities.

Employees

During the period ended 30 June 2009, the Group had an average of 715 employees (same period of 2008: 745 employees). In the first half year of 2009, the aggregate employee remuneration (including directors' fees) was approximately RMB10,010,000 (same period of 2008: RMB8,962,000). The Group offers competitive salary packages to its employees who are also eligible for incentives based on their individual performance supplementing the Group's overall remuneration and bonus systems.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the six months ended 30 June 2009.

Pre-emptive Rights

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

Material Litigation

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

Corporate Governance

Compliance with the Code on Corporate Governance Practices

During the six months period ended 30 June 2009, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except in respect of a code provision providing for the roles of Chairman and Chief Executive Officer to be performed by different individuals. The deviation is deemed appropriate as the Company believes that the combination of the roles of Chairman and Chief Executive Officer promotes the efficient formulation and the implementation of the Company's strategies enabling the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

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

The Company has adopted a code of conduct regarding directors’ securities transactions in terms as stringent as those set out in the Model Code. All Directors, following specific enquiries made by the Company, confirmed that they have complied with the required standard of dealings as set out therein throughout the six months period ended 30 June 2009.

Audit Committee

The Company set up an Audit Committee on 24 September 2002 with its written terms of reference being in compliance with the Rules set out in “A Guide for the Formation of An Audit Committee” issued by Hong Kong Institute of Certified Public Accountants. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee along with the management have reviewed the accounting principles, standards and methods adopted by the Group, and has reviewed the unaudited Interim Financial Statements for the six months ended 30 June 2009.

By order of the Board

Yang Xin Min

Chairman

Hong Kong, 14 August 2009