



KTL Technologies Limited Annual Report 2008

For the year ended 31 December 2008

ACN 009 089 981

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DIRECTOR'S REPORT

Your directors present their report on the Company for the financial year ended 31 December 2008.

Directors

The names of directors in office at any time during or since the end of the year are:

Dayong Hu (appointed as Chairman on 1 September 2008)

Haolin Li

Gang Xu

Weiweng Cheng

Qingquan Cheng

Rachel Wong (appointed on 1 September 2008)

Lei Li (appointed as Alternate Director to Weiweng Cheng on 1 April 2008)

Russell Byfield (resigned on 11 July 2008)

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

Company Secretary

Ms Rachel Wong Bcom, Mcom, CPA

Principal Activities

KTL Technologies Ltd is a diversified group which invests in the development and manufacture of specialist technologies and selected mineral prospects.

Currently this includes:

- the commercialization of a patented modular insulation system for cryogenic pipework applications in the LNG industry.
- the development of the Mundong Well Prospect E08/1609 in Western Australia in which KTL has an 80% controlling interest.

Operating Results

As a result of the Company's activities in 2008, at 31 December 2008, the Company has cash of \$0.53 million, total consolidated assets of \$4.8 million and net assets of \$4.5 million.

The results of these business activities was a loss to the consolidated entity of \$2,628,573 (2007 – Loss of \$727,061).

Dividends Paid or Recommended

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

Review of Operations

The operations of the consolidated entity during the year are as described below.

Capital Raising

During the 2008 financial year, the Company has raised 3,500,000 fully paid ordinary shares at 1 cent per share pursuant to exercise of options.

Magnetic Material Business

The commercial production of Hydrogenation Disproportionation Desorption Recombination of Anisotropic Bonded Neodymium Iron Boron Powder (HDDR powder) by Jilin Huisheng Strong Magnet Company Limited (JHSM) has commenced and an HDDR Powder production of 6 tonnes per week has been achieved continuously over a four week production period during March to April 2008.

As approved at the Company's EGM held on 15 February 2008, an aggregate of 50,000,000 ordinary shares was allotted and issued to the Key Employees of JHSM on 7 May 2008 totalling \$1,250,000.

During the 2008 financial year, JHSM made the following achievements:

Developed the compression moulding technology for production of micro-motor magnets under the technical co-operation project with Johnson Electrics. JHSM is currently proceeding to refine the design of compression moulding machineries to improve demagnetization control; and

Filed application on HDDR ingredient and process patent and know-how protection code, and made a publication on bonded magnets which resulted in a substantial increase in awareness of the recent technological achievements of JHSM amongst the industry and a surge in enquiries from potential customers.

On 24 December 2008, the in-specie distribution was completed and the magnetic material business was no longer a part of the group.

In 2009, apart from continual technological development and sales promotion, the major focus of JHSM will be to co-operate with magnets manufacturers to develop efficient facilities which are capable of producing high quality magnet components from HDDR powder. This would fill up the current gap in the production chain linking to electromagnetic devices manufacturers.

Mundong Well Uranium, Copper and Lead Project E08/1609

During the 2008 financial year, the Company continued to maintain its 80% interest in the Exploration License Application 08/1609 Mundong Well Project.

The Company had placed its focus on company restructuring during the 2008 financial year and delayed the planned drill programme to explore the channel mineralisation of the Zone 4 prospect further evaluate the mineralisation at Walkers Prospect. The specie distribution was completed and the Company will be planning on commencement of the drill programme and keep shareholders informed on key developments.

KTL will continue to seek out and add value to its mineral exploration portfolio by development and/or acquisition.

Cryo-Lag

The Company continues to maintain its Cryo-Lag patents and patent applications. In summary, the Company has now been granted a patent for Cryo-Lag in ten jurisdictions including Australia, USA and Europe. KTL awaits the award of a patent in one further jurisdiction.

KTL is still reviewing its strategy for the commercialization of the Cryo-Lag technology.

Significant Change in State of Affairs

On 6 November 2008, the 65% share ownership in JHSM was transferred from Ji lin Australia Energy Technology Company Limited(JAET) to KTL Technologies Hong Limited(KTLHK). Both JAET and KTLHK were 100% owned by the Company at the time of this transaction. After the transaction, KTLHK owned the 65% share ownership of JHSM and 33.15% share ownership of Beililong Magnet Material Technology Co., Ltd (BBMMT) (JHSM's 51% owned subsidiary company Beijing).

At the Extraordinary Shareholders Meeting held on 16 December 2008, shareholders approved a capital reduction in the form of pro rata in specie distribution of KTLHK shares, which is conditional on compliance by the Company and KTLHK in all respects with the Corporations Act and the ASX Listing Rules. On 24 December 2008, the in specie distribution of KTLHK shares became effective and KTLHK is no longer a subsidiary of the Company.

The Company believes that the transaction was in the best interests of the shareholders, as all shareholders retain their interest in the development of the Company's manufacturing facilities in China through their shareholding in KTLHK and retain their current percentage ownership interest in the Company. The separation of the manufacturing assets allows the Company to specifically focus on its uranium activities and also explore other mineral opportunities. Capital raising in the future with a single focus for each entity is also believed to be more achievable.

The financial effect of the in-specie distribution has been brought to account at balance date and the Company's equity was reduced by \$580,612.

Future Developments, Prospects and Strategies

The Company is actively carrying out negotiations with the aim to have a stable, financially capable strategic shareholder, so as to enable the Company to continue to implement its strategy of creating long term value growth for all shareholders.

Significant After Balance Date Events

There are currently no matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Performance in Relation to Environmental Regulation

The consolidated entity complies with its obligations in relation to environmental regulation on:

- the Mundong Well Project when it undertakes exploration in the future; and
- the JHSM manufacturing operations in China

Information on Directors

<p>Mr Russell Byfield Age Special Responsibility Qualifications Experience</p>	<p>Non-Executive Chairman (resigned on 11 July 2008) 43 Audit Committee, Remuneration Committee (since 25 Jan 2008) B.Eng (Chem)(Hons.); CP Eng; MIE Aust; MAICD Mr Byfield holds a Bachelor of Chemical Engineering (2/1 Honours) and is a Chartered Professional Engineer with over 20 years experience in the Oil and Gas Industry. Mr Byfield is the General Manager, Western Australia of Shedden Uhde a multidisciplinary engineering company which is a wholly owned subsidiary of the Thyssen Krupp group of companies. Mr Byfield is co-founder and a director of Strategy Central Pty Ltd, a strategy & planning consultancy based in Western Australia servicing the Oil and Gas industry..</p> <p>Mr Byfield's experience encompasses the chemical engineering and Oil and Gas industries predominantly in Asia and Australasia. This has given Mr Byfield, a sound understanding of cultural and business practices of the countries in the Asia Pacific region. He has extensive experience in regional and general management, sales management, business strategy & planning, business development, IT and, engineering & design.</p> <p>46 months (22 December 2004 to 11 July 2008)</p>
<p>Period of Directorship:</p>	
<p>Mr Dayong Hu Age Qualifications Experience</p>	<p>Non-Executive Director, appointed Managing Director in 1st Jan 2008 41 B.A., MCom Mr. Hu Dayong graduated with a Bachelor Degree from China Foreign Affairs University (China) and subsequently obtained a Post-Graduate Diploma in Business Administration at Capital University of Economic and Business (China).</p> <p>From December 2002 to December 2007, Mr. Hu has been the Executive Director of Beijing Guo Tai Hengsheng Investment (Group) Co.Ltd ("GTHS"), a Chinese group which engages in capital market investments. Mr Hu began his career as an officer in the Chinese Foreign Affairs Ministry in 1989 and had gained extensive management experience in both public and private sectors from at the Ministry and several securities investment companies prior to joining GTHS.</p> <p>51 months (22 December 2004 to present)</p>
<p>Period of Directorship</p>	
<p>Madam Weiwen Cheng Age Qualifications Special Responsibility Experience</p>	<p>Non-Executive Director 40 B.CON., EMBA Audit Committee Madam Cheng graduated from Huazhong Science and Technology University, and has an architectural background having attended the Shenzhen Institute of Architecture and Design and has 14 years experience working in the real estate development market in China.</p> <p>Ms Cheng is Group Chief Executive Officer of Beijing Guo Tai Hengsheng Investment (Group) Co. Limited, and also Chairwoman of Beijing Dingcheng Property Development Co. Limited and Jilin Wuhua Group Co. Limited.</p> <p>51 months (22 December 2004 to present)</p>
<p>Period of Directorship</p>	
<p>Mr Qingquan Cheng Age Qualifications Experience</p>	<p>Non-Executive Director 36 B.Comm., CPA Mr Cheng Qingquan graduated with a Masters degree from Zhongnan Minzu University. Since obtaining his Masters degree, Mr Cheng has been financial controller and Chief Financial Officer of a number of Beijing companies.</p> <p>51 months (22 December 2004 to present)</p>
<p>Period of Directorship</p>	
<p>Mr Haolin Li Age Qualifications Special Responsibility Experience</p>	<p>Non-Executive Director 37 BEng, MFE Audit Committee, Remuneration Committee (since 25 Jan 2008) Mr. Li holds a Master's in Financial Engineering from University of California at Berkeley and a Bachelor of Electronic Engineering. Currently he is on board of several companies both in China and abroad.</p> <p>Mr. Li has 9 years of experience in electronic industries both in China and US and 5 years of experience in investment management. Right now, he oversees investment projects in energy & resources sector, real estate and financial industries.</p> <p>15 months (18 December 2007 to present)</p>
<p>Period of Directorship:</p>	

<p>Mr Gang Xu Age Qualifications Special Responsibility Experience</p>	<p>Non-Executive Director 45 BSc, MSc, MBA, MAusIMM Audit Committee (since 25 Jan 2008) Mr Xu is a geologist with over 20 years' experience in the mining and energy industry. He spent 9 years as a senior exploration geologist with the China National Nuclear Corporation (CNNC) which explored for uranium in eastern and northern China. Mr Xu was also the Finance and Marketing Manager for Sino Gold Limited which developed the first international standard mining operation in the PRC. In addition to his technical skills and experience in exploration and mining, he has significant diverse experience in business research, marketing and finance.</p> <p>Mr Xu completed his Masters of Business Administration in the United States in 1997. He also completed his Masters of Geology in the PRC in 1988 and is a member of AusIMM. Mr Xu has been active in developing Sino -Australian business ventures in the mining industry and has facilitated negotiations between Chinese and Australian parties in mining development investments and off-take agreements. He is currently managing director of Dragon Energy Ltd and was an independent director of UraniumSA Limited. Mr Xu is a resident in Australia.</p>
<p>Period of Directorship:</p>	<p>15 months (18 December 2007 to present)</p>
<p>Ms Lei Li Age Qualifications Experience</p>	<p>Alternate Director of Madam Weiwen Cheng (from 1 April 2008) 41 EBc., MAppFin Ms Lei holds a Master of Applied Finance from Macquarie University Sydney and a Bachelor of Economics from University of International Business and Economics Beijing.</p> <p>Ms Li has 9 years experience on lending while worked at various banks in China. She was in charge of loan lending decision making, assessment of project's evaluation, financial evaluation and financial situation analysis. Ms Li managed a total loan amount that more than five hundred million RMB when she worked Bank of Beijing</p> <p>Ms Li also has 8 years experience on investment in various business activities including equity investment, equity mergers and acquisitions in both china and overseas markets.</p>
<p>Period of Directorship</p>	<p>11 months (1 April 2008 to present)</p>
<p>Ms Rachel Wong Age Qualifications Experience</p>	<p>Non-Executive Director (from 1 September 2008) Company Secretary 34 B.Comm., MComm, CPA Ms Wong is Certified Practising Accountant with over 10 years experience. She worked as an auditor with PriceWaterhouseCoopers overseas in a diverse range of industries. Before joining KTL Technologies Limited she was the Finance Controller and Company Secretary for Pacific Energy Ltd responsible for project analysis, corporate reporting and treasury functions. At KTL she oversees the finance, accounting and company secretarial functions.</p> <p>Ms Wong holds a Bachelor of Commerce degree with merit and Master of Commerce degree from the University of New South Wales.</p> <p>Ms Wong is currently completing the Graduate Diploma in Applied Corporate Governance at Chartered Secretaries Australia.</p>
<p>Period of Directorship</p>	<p>6 months (1 September 2008 to present)</p>

Remuneration Report

Remuneration Policy

The remuneration policy of KTL Technologies Limited has been designed to align directors' objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of KTL Technologies Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy, setting the terms and conditions (where appropriate) for the executive directors and other senior staff members is reviewed by the remuneration committee and their recommendations must be approved by the Board.

In determining competitive remuneration rates, the Remuneration Committee & Board seek independent advice (where appropriate) on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice may be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

Consistent with (and where appropriate) attracting and retaining talented executives, directors and senior executives, are paid market rates associated with individuals in similar positions within the same industry.

Options and performance incentives may be issued, and key performance indicators such as profit and share price growth can be used as measurements for assessing executive performance.

All remuneration paid to directors is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration Committee in consultation with independent advisors (where appropriate) determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is currently \$300,000 per annum approved by shareholders on 4 March 2005.

Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

Service contracts

All references to the Chief Executive Officer (CEO) are references to the CEO or equivalent.

Mr Dayong Hu, CEO, has a contract of employment, dated 26 November 2007, with the Company. The contract specifies the duties and obligations to be fulfilled by the CEO and provides that the board and CEO will, early in each financial year, consult and agree objectives for achievement during that year.

The service contract has a four-year term with effect from 1 January 2008 and can be terminated either by the Group or the CEO providing three months' notice. The Company may make a payment in lieu of notice of 3 months plus one month's pro rata for each year of service. This payment represents market practice at the time the terms were agreed.

The CEO has no entitlement to termination payment in the event of removal for misconduct.

Ms Rachel Wong, Company Secretary and non-executive director, has an independent contractor agreement with the Company. This contract is for an unlimited term and is capable of termination on two months' notice. The Group retains the right to terminate the contract immediately by making payment equal to two months' pay in lieu of notice.

Directors' and Executive Officers' Emoluments

Directors' remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year, relative comparative information and independent expert advice.

Except as detailed in the Remuneration Report, no director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in the Remuneration Report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Company.

The remuneration for each director and each of the executive officers of the consolidated entity during the year was as follows:

Period ended:	Short-term employee benefits	Equity Compensation	Post-employment	TOTAL
	Base Salary and Fees \$	Value of Options \$	Superannuation Contributions \$	
Specified Directors				
Weiwen Cheng				
31 December 2008	30,000	-	-	30,000
31 December 2007	30,000	-	-	30,000
Qingquan Cheng				
31 December 2008	30,000	-	-	30,000
31 December 2007	30,000	-	-	30,000
Dayong Hu				
31 December 2008	30,000	-	-	30,000
31 December 2007	30,000	-	-	30,000
Russell Byfield (resigned on 11 July 2008) (i)				
31 December 2008	39,232	-	-	39,232
31 December 2007	32,500	-	-	32,500
Rachel Wong (appointed on 1 September 2008)				
31 December 2008	10,000	-	-	10,000
31 December 2007	-	-	-	-
Haolin Li				
31 December 2008	31,048	-	-	31,048
31 December 2007	-	-	-	-
Gang Xu				
31 December 2008	31,048	-	-	31,048
31 December 2007	-	-	-	-
Lei Li (appointed on 1 April 2008)				
31 December 2008	-	-	-	-
31 December 2007	-	-	-	-
John Fletcher (resigned on 17 December 2007)				
31 December 2008	-	-	-	-
31 December 2007	28,897	-	-	28,897
Barry Woodhouse (resigned on 17 December 2007)				
31 December 2008	-	-	-	-
31 December 2007	49,288	-	723	50,011
Totals				
31 December 2008	201,328	-	-	201,328
31 December 2007	200,685	-	723	201,408
Specified Executive				
Dayong Hu (appointed on 1 January 2008) (ii)				
31 December 2008	201,100	-	-	201,100
31 December 2007	-	-	-	-
Rachel Wong (iii)				
31 December 2008	156,483	-	-	156,483
31 December 2007	58,972	-	-	58,972
Totals				
31 December 2008	357,583	-	-	357,583
31 December 2007	58,972	-	-	58,972

(i) In the twelve months to 31 December 2008, consulting fees of \$39,232 (2007: \$30,000) were paid and accrued to Strategy Central Pty Ltd for technical services provided by Mr Russell Byfield. Mr Byfield is a director and shareholder of Strategy Central Pty Ltd.

(ii) In the twelve months to 31 December 2008, fees of \$201,100 (31 December 2007: \$Nil) were paid and or accrued to Lion Liaison Limited (an associated entity of Mr Hu), for the services provided for the year in his role as the General Manager the Company.

(iii) In the twelve months to 31 December 2008, fees of \$156,483 (31 December 2007: \$58,972) were paid and or accrued to Abilia Pty Limited (a Company in which Ms Wong is a Director and Shareholder), for company secretarial and accounting services provided for the year in its role as consultant to the Company.

All transactions were entered into on normal commercial terms.

Remuneration Options Granted and vested during the financial year ending 31 December 2007 and the financial year ending 31 December 2008

On 4 March 2005 shareholders approved the issue of a total of 6 million options (for no consideration) as follows:

- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr John Fletcher.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Ms Weiwen Cheng.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Qingquan Cheng.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Dayong Hu.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Russell Byfield.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 4 March 2008, and expire 4 March 2010. All options vest 36 months after issue and are not performance related.

On 29 July 2005 shareholders approved the issue of a total of 9 million options (for no consideration) as follows:

- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr John Fletcher.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Russell Byfield.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 29 July 2007, and expire 29 July 2010. All options vest 24 months after issue and are not performance related.

On 29 May 2006 shareholders approved the issue of a total of 12 million options (for no consideration) as follows:

- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr John Fletcher.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Ms Weiwen Cheng.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Qingquan Cheng.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Dayong Hu.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Russell Byfield.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 5.00 cents. The options are escrowed and may only be exercised after 29 May 2008, and expire 29 May 2011. All options vest 24 months after issue and are not performance related.

Options were issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the directors of KTL Technologies Limited to increase goal congruence between directors and shareholders.

Basis of valuation

The Black & Scholes methodology has been used, together with the following assumptions for the options issued on 29 May 2006:

The risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the Incentive Options as at 29 May 2006 – 6.25%;

The underlying security spot price used for the purposes of the valuation is based on the share price of the Company was \$0.015;

The volatility factor is set as 70% which is based on an average of comparable companies' historical data from the Australian Graduate School of Management's Risk Measurement Service.

Share and Option holdings

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

Shares held by Specified Directors
Period from 1 January 2008 to 31 December 2008

	Balance at beginning of year	Received as Remuneration	Options Exercised	Net Change Other	Balance at end of year
Weiwen Cheng	27,000,000	-	-	-	27,000,000
Qingquan Cheng	3,000,000	-	-	-	3,000,000
Dayong Hu	5,000,000	-	-	-	5,000,000(i)
Russell Byfield*	7,000,000	-	-	800,000	7,800,000(ii)
Rachel Wong**	3,746,000	-	-	650,000	4,396,000 (iii)
Haolin Li	-	-	-	-	-
Gang Xu	-	-	-	-	-
	45,746,000	-	-	1,450,000	47,196,000

- i. Held indirectly by Ms Lei Li, wife of Mr Hu.
ii. Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
iii. Held indirectly by Mr Yim Ming Wong and Ms Elizabeth Lai, parents of Ms Wong .
* Russell Byfield resigned as director on 11 July 2008 .
** Rachel Wong was appointed as director on 1 September 2008.

Period 1 January 2007 to 31 December 2007

	Balance at beginning of year	Received as Remuneration	Options Exercised	Net Change Other	Balance at end of year
John Fletcher*	29,861,854	-	-	3,600,593	33,462,447 (i)
Cheng Weiwen	27,000,000	-	-	-	27,000,000
Cheng Qingquan	3,000,000	-	-	-	3,000,000
Hu Dayong	5,000,000	-	-	-	5,000,000(ii)
Russell Byfield	7,000,000	-	-	-	7,000,000(iii)
Barry Woodhouse*	1,000,000	-	-	-	1,000,000(iv)
Haolin Li	-	-	-	-	-
Gang Xu	-	-	-	-	-
	72,861,854	-	-	3,600,593	76,462,447

- i. Held indirectly by FF Financial Services Limited, Cleveland Investment Group Limited and Asian Cleveland Limited.
ii. Held indirectly by Ms Li Lei, wife of Mr Hu Dayong.
iii. Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
iv. Held indirectly by Mr B Woodhouse as trustee for the Woodhouse Trust. Mr Woodhouse is a beneficiary of the Woodhouse Trust.
* John Fletcher and Barry Woodhouse resigned as directors on 17 December 2007.

Options Held By Specified Directors
Period from 1 January 2008 to 31 December 2008

	Balance at beginning of year	Received as Remuneration	Net Change Other	Balance at end of year	Total Vested	Total Exercisable+
Weiwen Cheng	3,000,000	-	-	3,000,000	3,000,000	-
Qingquan Cheng	3,000,000	-	-	3,000,000	3,000,000	-
Dayong Hu	3,000,000	-	-	3,000,000	3,000,000	-
Russell Byfield***	6,000,000	-	-	6,000,000	6,000,000	3,000,000
Rachel Wong*	1,808,000	-	800,000	2,608,000	2,608,000	2,608,000
Haolin Li						
Gang Xu						
Lei Li**						
	16,808,000	-	800,000	17,608,000	17,608,000	5,608,000

+ Please note that these options have yet to be exercised, and refers to options that can be exercised.

(i) Refer to note (d) above for terms of options granted to directors.

* Rachel Wong was appointed as director on 1 September 2008.

** Lei Li was appointed as alternate director to Weiwen Cheng on 1 April 2008.

*** Russell Byfield resigned as director on 11 July 2008.

Period from 1 January 2007 to 31 December 2007

	Balance at beginning of year	Received as Remuneration	Net Change Other	Balance at end of year	Total Vested	Total Exercisable+
John Fletcher*	10,750,000	-	-	10,750,000	10,750,000	7,750,000
Weiwen Cheng	3,000,000	-	-	3,000,000	3,000,000	-
Qingquan Cheng	3,000,000	-	-	3,000,000	3,000,000	-
Dayong Hu	3,000,000	-	-	3,000,000	3,000,000	-
Russell Byfield	6,000,000	-	-	6,000,000	6,000,000	3,000,000
Barry Woodhouse*	6,000,000	-	-	6,000,000	6,000,000	3,000,000
	31,750,000	-	-	31,750,000	31,750,000	13,750,000

* John Fletcher and Barry Woodhouse resigned as directors on 17 December 2007.

(f) Other key management personnel transactions

During the year ended 31 December 2008, there were no other key management personnel transactions other than those disclosed above.

During the year ended 31 December 2007:

(i) The Group used the consultancy services of Lion Liason Limited (an associate company of Mr Hu) in relation to fund raising. A fee of \$59,381 was paid. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(ii) The Group used the consultancy services of Somerley Limited (a Company in which Mr Fletcher is a Director and Shareholder) in relation to pre-acquisition investigation of JHSM. A fee of \$47,136 was paid. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

Directors' Meetings

The number of directors' meetings (including committees) held during the financial period each director held office during the financial year and the number of meetings attended by each of the directors are:

Director	Directors Meetings		Audit Committee Meetings	
	Meetings Attended	Number Eligible to Attend	Meetings Attended	Number Eligible to Attend
Russell Byfield*	5	5	2	2
Dayong Hu	10	10	N/A	N/A
Weiweng Cheng	0	10	0	2
Qingquan Cheng	0	10	N/A	N/A
Gang Xu	10	10	N/A	N/A
Haolin Li	10	10	3	3
Rachel Wong **	10	3	3	0
Lei Li (alternate director)***	6	3	3	1

The Company's audit committee comprised with Mr Byfield, Li and Cheng prior to 11 July 2008. From 11 July 2008 to 31 December 2008, the membership of the audit committee includes Mr Haolin Li as Chairman, Mr Gang Xu and Madam Weiweng Cheng.

* Russell Byfield resigned as a director on 11 July 2008.

** Rachel Wong was appointed as director on 1 September 2008.

*** Lei Li was appointed as alternate director to Weiweng Cheng on 1 April 2008.

Director Interests

The relevant interest of each director in the shares and options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

KTL Technologies Limited

	Ordinary shares	Options over ordinary shares
Weiweng Cheng	27,000,000	3,000,000
Qingquan Cheng	3,000,000	3,000,000
Hu Dayong	5,000,000(i)	3,000,000
Russell Byfield	7,800,000(ii)	6,000,000
Rachel Wong*	4,396,000(iii)	2,608,000
Haolin Li	-	-
Gang Xu	-	-
Lei Li	-	-

i. Held indirectly by Ms Li Lei, wife of Mr Hu Dayong.

ii. Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.

iii. Held indirectly by Mr Yim Ming Wong and Ms Elizabeth Lai, parents of Ms Wong.

* Rachel Wong was appointed as director on 1 September 2008.

** Lei Li was appointed as alternate director to Weiweng Cheng on 1 April 2008.

Share Options

Options granted to directors and officers of the Company

No options have been granted during the financial year.

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of shares
4 March 2010	\$0.0125	6,000,000
29 July 2010	\$0.0125	9,000,000
29 May 2011	\$0.05	12,000,000

All options expire on the earlier of their expiry date or termination of the employee's employment. Further details are included in the Remuneration Report on pages 6 to 10.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Shares issued on exercise of options

On 20 November 2008, 3,500,000 ordinary shares were issued to Mr John Fletcher at \$0.01 as a result of the exercise of options.

Indemnifying Officers

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him or her in his or her capacity as officer or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

Since the end of the previous financial year, the Company has paid insurance premiums of \$29,374 in respect of directors' and officers' liability. The insurance premiums relate to:

Costs and expenses incurred by the relevant officers in defending legal proceedings, whether civil or criminal and whatever their outcome; Other liabilities that may arise from their position, with the exception of conduct involving wilful breach of duty or improper use of information to gain a personal advantage.

Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceeding to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 31 December 2008 has been received and can be found on page 56 of the financial report.

Non Audit Services

The Board of Directors is satisfied that the provision of non-audit services performed during the year by the entity's auditors is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reason:

The nature of the services provided do not compromise the general principles relating to auditors independence as set out in APES 110 Code of Ethics for Professional Accountants.

An amount of \$7,820 (2007 - nil) was paid to PKF for taxation services. No other fees were paid or payable to the auditors for non-audit services performed during the period to 31 December 2008.

This report is made in accordance with a resolution of the directors.



Dayong Hu
Managing Director
25 March 2009

Corporate Governance

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has turned to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. The Company is pleased to advise that the Company's practices have been largely consistent with the ASX guidelines adopted on 1 January 2008. As consistency with the guidelines has been a gradual process, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, we have identified such policies or committees.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company is working towards compliance however it does not consider that all the practices are appropriate for the Company due to the size and scale of Company operations.

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered. Details of all of the recommendations can be found on the ASX website at http://www.asx.com.au/about/corporate_governance/revised_corporate_governance_principles_recommendations.htm

Recommendation	Section
1.1 Functions of the Board and Management	1.1
1.2 Senior Management Performance Evaluation	1.4.10
1.3 Reporting on Principle 1	1.1 & 1.4.10
2.1 Independent Directors	1.2
2.2 Independent Chairman	1.2
2.3 Role of the Chairman and CEO	1.2
2.4 Establishment of Nomination Committee	2.3
2.5 Review of Board Performance	1.4.5 & 1.4.10
2.6 Reporting on Principle 2	1.2, 1.4.6, 2.3.2 and the Directors' Report
3.1 Directors' and Key Executives' Code of Conduct	1.1
3.2 Company Security Trading Policy	1.4.9
3.3 Reporting on Principle 3	1.1 and 1.4.9
4.1 Establishment of Audit Committee	2.1
4.2 Structure of Audit Committee	2.1.1
4.3 Audit Committee Charter	2.1
4.4 Reporting on Principle 4	2.1 and Directors' Report
5.1 Policy for Compliance with Continuous Disclosure	1.4.4
5.2 Reporting on Principle 5	1.4.4
6.1 Communications Strategy	1.4.8
6.2 Reporting on Principle 6	1.4.8
7.1 Policies on Risk Oversight and Management	2.1.3
7.2 Management of Material Business Risks	2.1.3
7.3 Attestations by CEO and CFO	1.4.11
7.4 Reporting on Principle 7	2.1.3
8.1 Establishment of Remuneration Committee	2.2
8.2 Executive and Non-Executive Director Remuneration	2.2.3.1 and 2.2.3.2
8.3 Reporting on Principle 8	2.2.2 and 2.2.4

1. Board of Directors

1.1 Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors, (and where applicable) the Chief Executive Officer(CEO), the Chief Financial Officer(CFO) and other key executives, in the performance of their roles. All references to the Chief Executive Officer are references to the CEO or equivalent.

1.2 Composition of the Board

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. The directors listed below are not independent directors as they do not meet the following criteria for independence adopted by the Company.

An Independent Director is a Non-Executive Director and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member. Or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or other group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Mr Gang Xu has been a Non-Executive Director and Ms Rachel Wong, since 1 September 2008, has been a Non-Executive Director of the Company and meet the Company's criteria for independence. Russell Byfield was a Non-Executive Chairman of the Company until 11 July 2008 and met the Company's criteria for independence.

Mr Hu was the CEO and Chairman(since 1 September 2008) of the Company and did not meet the Company's criteria for independence. Madam Weiwen Cheng, Mr Haolin Li, Mr Dayong Hu and Mr Qingquan Cheng are Non-Executive Directors of the Company but do not meet the Company's criteria for independence.

As such, the majority of the Board are not considered to be independent. It is considered at this stage of the Company's development, that the Company's and shareholders' best interests are served by directors who have a vested interest in its performance.

1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following:

- **Leadership of the Organisation:** overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.
- **Strategy Formulation:** to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- **Overseeing Planning Activities:** the development of the Company's strategic plan.
- **Shareholder Liaison:** ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- **Monitoring, Compliance and Risk Management:** the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- **Company Finances:** approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- **Human Resources:** appointing, and where appropriate, removing CEO and CFO as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.
- **Ensuring the Health, Safety and Well-Being of Employees:** in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- **Delegation of Authority:** delegating appropriate powers, where appropriate, to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Company's registered office.

1.4 Board Policies

1.4.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and, where appropriate, key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

1.4.5 Education and Induction

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. When it is appropriate, this includes meetings with key executives, tours of the premises, an induction package and presentations.

Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.4.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

1.4.9 Trading in Company Shares

Due to the size of the Company, the Share Trading Policy requires all directors to advise the Chairman of an intention to trade the Company's shares, and it reminds directors, officers and where appropriate, employees of the prohibition in the Corporations Act 2001 concerning trading in the Company's securities when in possession of "inside information".

1.4.10 Performance Review and Evaluation

It is the policy of the Board to conduct evaluation of its performance. The evaluation process was introduced via the Board Charter adopted on 9 August 2005 and was implemented for the financial year ended 31 December 2006. The objective of this evaluation will be to provide best practice corporate governance to the Company.

1.4.11 Attestations by CEO and CFO

It is the Board's policy, that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report. However, as at the date of this report the Company does not have a designated CFO. Due to the size and scale of operations of the Company this role is performed by the Company Secretary and/or Finance Director.

2. Board Committees

2.1 Audit Committee

The Company has had an Audit Committee since 9 August 2005, and met twice in 2008 calendar. Below is a summary of the role and responsibilities of an Audit Committee.

2.1.1 Structure of Audit Committee

Corporate Governance Council Recommendation 4.3 requires the structure of the audit committee to include non-executive directors, a majority of independent directors, an independent chairperson and at least three members.

From 1 January 2008 to 11 July 2008, the membership of the audit committee includes Mr Russell Byfield as Chairman, Mr Haolin Li and Madam Weiwen Cheng. From 11 July 2008 to 31 December 2008, the membership of the audit committee includes Mr Haolin Li as Chairman, Mr Gang Xu and Madam Weiwen Cheng.

The Audit Committee does not consist of a majority of independent directors however KTL considers that the current members, combined with the Chairman's independence, have the sufficient financial expertise to fulfil the responsibilities required as members of the Audit Committee.

2.1.2 Responsibilities

The Audit Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee each year reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

The Audit Committee is also responsible for establishing policies on risk oversight and management.

2.1.3 Risk Management Policies

The Board determines the Company's 'risk profile' and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company's process of risk management and internal compliance and control includes:

- continuously identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks.
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls.
- monitoring the performance, and continuously improving the effectiveness, of risk management systems and internal compliance and controls.

The Board recognises that there are inherent risks associated with the Company's operations including mineral exploration, legal and other operational risks. The Board endeavours to mitigate such risks by continually reviewing the activities of the Company in order to identify key business and operational risks and ensuring that they are appropriately assessed and managed.

Procedures have been established at the Board and executive management levels which are designed to safeguard the assets and interests of the company and to ensure the integrity of reporting.

- the Board reviews and discusses strategic risks and opportunities arising from changes in the company's business environment.
- areas of significant business risk to the Group are highlighted to the Board by the CEO on an as needs basis.
- arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Group.
- the Board delegates some of the responsibility to committees of the Board but maintains the overall responsibility for the process.
- the Audit Committee and Remuneration Committee have been established to assist the Board in internal control and business risk management.

On 25 March 2009, the CEO and the Company Secretary provided the Board with written assurance that the financial statements are founded on a sound system of risk management and internal compliance. The statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

2.2 Remuneration Committee

2.2.1 Role

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

Mr Haolin Li and Mr Gang Xu are members of the remuneration committee. Mr Russell Byfield, was a member of the remuneration committee until his resignation on 11 July 2008.

2.2.2 Responsibilities

The responsibilities of a Remuneration Committee as assumed by the full Board include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the CEO, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors and making recommendations on any proposed changes and undertaking reviews of the CEO's performance, including, setting with the CEO goals and reviewing progress in achieving those goals.

2.2.3 Remuneration Policy

Non-Executive Directors' remuneration was approved by resolution of the Board on 4 March 2005 after shareholders increased the level to \$300,000 on the same date.

2.2.3.1 Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executive may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/options scheme with thresholds approved by shareholders;
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration, the Company aims to align the interests of senior executives with those of shareholders and increase Company performance.

The value of shares and options were they to be granted (where appropriate) to senior executives, would be calculated using the Black and Scholes method.

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

2.2.3.2 Non-Executive Director Remuneration Policy

Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses but do participate in equity schemes of the Company and may be issued options in lieu of cash payments for commitment and effort over and above what is normally expected of a non executive director.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

2.2.4 Current Director Remuneration

Full details regarding the remuneration of Directors, is included in the Directors' Report.

2.3 Nomination Committee

2.3.1 Role

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

The Company does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific skills set and experience that the Company requires.

2.3.2 Responsibilities

The responsibilities of a Nomination Committee would include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee would also oversee management succession plans including the CEO and his/her direct reports and evaluate the Board's performance and make recommendations for the appointment and removal of Directors. Currently the Board as a whole performs this role.

2.3.3 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience appropriate to the Company's target market. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and Director-level business experience.

3. Company Code of Conduct

The Board has implemented a code of conduct. The Code of Conduct addresses matters relevant to the Company's legal and ethical obligations to its stakeholders. It may be amended from time to time by the Board, and is published on the Company's website. This code applies equally to all employees, directors and officers of the Company and covers such matters as Discharge of Duties, Relationships, Compliance with Laws, Conflicts of Interest, Confidentiality, Use of Company Assets, Competition, Environment, Health and Safety and the Review of Code of Conduct on an annual basis.

INCOME STATEMENT
For the Year Ended 31 December 2008

		Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
		\$	\$	\$	\$
Continuing Operations					
Revenue	9	-	-	-	-
Cost of goods sold		-	-	-	-
Gross profit		-	-	-	-
Discount on acquisition of subsidiary		-	1,425	-	-
Gain on disposal of discontinued operations		-	-	-	-
Foreign exchange gain		-	-	746,136	-
Depreciation		(4,607)	-	-	-
Selling expenses		-	-	-	-
Consultants		(493,771)	(170,189)	(475,605)	(168,409)
Director payments		(201,328)	(260,789)	(201,328)	(260,789)
ASX Listing and share registry		(34,318)	(23,093)	(34,318)	(23,093)
Share based payments		(1,250,000)	-	(1,250,000)	-
Travel		(4,302)	(32,810)	(4,058)	(11,200)
Staff salaries		(15,236)	-	-	-
Property and land taxes		-	-	-	-
Other administrative expenses		(73,555)	(81,860)	(69,156)	(63,354)
Results from operating activities		(2,077,117)	(567,316)	(1,288,329)	(526,845)
Finance Income	9	94,329	58,846	303,014	111,606
Finance expense		-	-	-	-
Net finance income		94,329	58,846	303,014	111,606
Loss before income tax		(1,982,788)	(508,470)	(985,315)	(415,239)
Income Tax Expense	10	-	-	-	-
Loss from continuing operations		(1,982,788)	(508,470)	(985,315)	(415,239)
Discontinued operation					
Loss from discontinued operations, net of income tax	8	(645,785)	(324,799)	-	-
Loss for the period		(2,628,573)	(833,269)	(985,315)	(415,239)
Attributable to:					
Members of the parent		(2,628,573)	(833,269)	(985,315)	(415,239)
Minority Interest		-	106,208	-	-
Loss for the period		(2,628,573)	(727,061)	(985,315)	(415,239)
Earnings per share – Continuing Operations					
Basic loss per share (cents)	18	(0.47)	(0.17)		
Diluted loss per share (cents)	18	(0.47)	(0.17)		
Earnings per share – Equity holders of the company					
Basic loss per share (cents)	18	(0.63)	(0.24)		
Diluted loss per share (cents)	18	(0.63)	(0.24)		

The income statements are to be read in conjunction with the attached notes.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2008

Consolidated

In AUD	Share Capital	Translation reserve	Option reserve	Accumulated Losses	Total	Minority Interest	Total equity
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 January 2007	2,393,667	-	427,654	(1,172,099)	1,649,222	-	1,649,222
Foreign currency translation	-	171,975	-	-	171,975	-	171,975
Loss for the period	-	-	-	(727,061)	(727,061)	(106,208)	(833,269)
Minority interest acquired on subsidiary	-	-	-	-	-	433,287	433,287
Issue of share capital	3,949,950	-	-	-	3,949,950	-	3,949,950
Cost of share capital	(13,404)	-	-	-	(13,404)	-	(13,404)
Balance at 31 December 2007	6,330,213	171,975	427,654	(1,899,160)	5,030,682	327,079	5,357,761
Balance at 1 January 2008	6,330,213	171,975	427,654	(1,899,160)	5,030,682	327,079	5,357,761
Foreign currency translation	-	845,508	-	-	845,508	-	845,508
Loss for the period	-	-	-	(2,628,573)	(2,628,573)	-	(2,628,573)
Disposal of minority interests	-	-	-	-	-	(327,079)	(327,079)
Issue of share capital	53,850	-	(18,850)	-	35,000	-	35,000
Share based payment	1,250,000	-	-	-	1,250,000	-	1,250,000
Cost of share capital	(9,100)	-	-	-	(9,100)	-	(9,100)
Balance at 31 December 2008	7,624,963	1,017,483	408,804	(4,527,733)	4,523,517	-	4,523,517

Parent

	Share Capital	Option Reserve	Accumulated Losses	Total
	\$	\$	\$	\$
Balance 1 January 2007	2,393,667	427,654	(1,164,217)	1,657,104
Net income (expense) recognised directly in equity	-	-	-	-
Loss for the period	-	-	(415,239)	(415,239)
Issue of share capital	3,949,950	-	-	3,949,950
Costs of share capital	(13,404)	-	-	(13,404)
Balance as at 31 December 2007	6,330,213	427,654	(1,579,456)	5,178,411

	Share Capital	Option Reserve	Accumulated Losses	Total
	\$	\$	\$	\$
Balance 1 January 2008	6,330,213	427,654	(1,579,456)	5,178,411
Net income (expense) recognised directly in equity	-	-	-	-
Loss for the period	-	-	(985,315)	(985,315)
Issue of share capital	53,850	(18,850)	-	35,000
Share based payment	1,250,000	-	-	1,250,000
Costs of share capital	(9,100)	-	-	(9,100)
Balance as at 31 December 2008	7,624,963	408,804	(2,564,771)	5,468,996

The statements of changes in equity are to be read in conjunction with the attached notes.

BALANCE SHEET
As at 31 December 2008

		Consolidated	Consolidated	Parent	Parent
		2008	2007	2008	2007
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	16	535,914	2,864,818	535,158	898,240
Trade and other receivables	15	15,095	585,952	7,440	2,044
Inventories	14	-	427,600	-	-
Other financial assets	17	1,546,110	692,213	637,826	16,879
Total current assets		2,097,119	4,570,583	1,180,424	917,163
NON-CURRENT ASSETS					
Property, plant and equipment	11	34,640	6,441,267	-	-
Other financial assets	17	2,112,289	-	4,485,781	4,348,623
Exploration and evaluation expenditure	12	476,678	450,953	-	-
Intangible assets	13	113,898	1,197,368	113,898	105,750
Total non-current assets		2,737,505	8,089,588	4,599,679	4,454,373
TOTAL ASSETS		4,834,624	12,660,171	5,780,103	5,371,536
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	20	311,107	1,800,429	311,107	193,125
Interest-bearing loan	19	-	1,967,431	-	-
Total current liabilities		311,107	3,767,860	311,107	193,125
NON CURRENT LIABILITIES					
Interest-bearing loan	19	-	3,534,550	-	-
Total non-current liabilities		-	3,534,550	-	-
TOTAL LIABILITIES		311,107	7,302,410	311,107	193,125
NET ASSETS		4,523,517	5,357,761	5,468,996	5,178,411
EQUITY					
Share capital	28	7,624,963	6,330,213	7,624,963	6,330,213
Option reserve	29	408,804	427,654	408,804	427,654
Foreign exchange translation reserve		1,017,483	171,975	-	-
Accumulated losses		(4,527,733)	(1,899,160)	(2,564,771)	(1,579,456)
Total equity attributable to equity holders of the Company		4,523,517	5,030,682	5,468,996	5,178,411
Minority interest		-	327,079	-	-
TOTAL EQUITY		4,523,517	5,357,761	5,468,996	5,178,411

The balance sheets are to be read in conjunction with the attached notes .

CASH FLOW STATEMENT
For the Year Ended 31 December 2008

	Note	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
Cash flows from operating activities		\$	\$	\$	\$
Payments to suppliers and employees		(1,635,109)	(866,070)	(673,439)	(393,445)
Receipt from customers		303,206	75,654	-	-
Interest received		35,947	61,191	32,226	50,267
Net cash from/(used in) operating activities	16b	(1,295,956)	(729,225)	(641,213)	(343,178)
Cash flows from investing activities					
Disposal of discontinued operation, net of cash disposed of		(334,912)	-	-	-
Payments to subsidiaries		-	-	-	(819,519)
Payment for property, plant and equipment		(805,585)	(463,918)	-	-
Payment for acquisition of subsidiary, net	7	-	(146,406)	-	-
Payment for exploration and evaluation		(25,725)	(69,315)	(25,725)	(69,315)
Payment of research and development costs		(8,148)	(31,949)	(8,148)	(31,949)
Net cash used in investing activities		(1,174,370)	(711,588)	(33,873)	(920,783)
Cash flows from financing activities					
Proceeds from issue of shares and options		35,000	3,966,200	35,000	979,950
Costs of issue of shares		(9,100)	(13,404)	(9,100)	(13,404)
Interest paid		(12,307)	(63,697)	-	-
Proceeds from borrowings		2,126,114	-	-	-
Repayment of borrowings		(1,795,916)	(699,339)	300,000	-
Loan to subsidiaries		-	-	(13,896)	(10,868)
Net cash provided by financing activities		343,791	3,189,760	312,004	955,678
Net increase (decrease) in cash and cash equivalents		(2,126,535)	1,748,947	(363,082)	(308,283)
Cash and cash equivalents at the beginning of the period		2,864,818	1,206,524	898,240	1,206,523
Effect of exchange rate fluctuations on cash held		(202,369)	(90,653)	-	-
Cash and cash equivalents at the end of the period		535,914	2,864,818	535,158	898,240

The cash flow statements are to be read in conjunction with the attached notes.

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NOTE 1 – CORPORATE INFORMATION

KTL Technologies Limited ("the Company") is incorporated in Australia and is the parent entity of the KTL group of companies. The address of the Company's registered office is Level 34, AMP Centre, 50 Bridge Street Sydney, NSW 2000 Australia. The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group primarily is involved in the commercialization of its Cryo-Lag assets (industrial insulation patents), exploration and of manufacture and sales of magnetic materials (see note 6).

NOTE 2 – BASIS OF PREPARATION

2a. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Compliance with IFRS

The financial report complies with Australian Accounting Standards which ensures compliance with International Financial Reporting Standards (IFRSs).

2b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value. The methods used to measure fair values are discussed further in note 4.

2c. Going Concern

At 31 December 2008, the consolidated entity and the parent entity had incurred losses for the year ended of \$2,628,573 and \$985,315 respectively, including share based payments of \$1.25 million.

The financial report of KTL Technologies Limited has been prepared on a going concern basis, based on the following reasons:

- Following the in-specie distribution of KTL Technologies Hong Kong, Jilin Huisheng Strong Magnet Company Ltd and of Beijing Beililong Magnet Material Technology Co. Ltd, the Company has no external debts outstanding.
- The directors are confident that the Company's interest bearing loans to director-related entities will be repaid in 2009 and 2010 in accordance with the loan agreements.
- Post year ended 31 December 2008, a total of approximately \$0.46 million of inter-company loans have been repaid.
- The directors have reviewed the working capital requirements for the next 12 months from reporting date and believe that the Company has sufficient funds to continue to operate;
- The Company is also considering debt and/or equity raising options for use as working capital. The directors are confident that additional debt and/or equity raising is available to the entity, if required.

Based on the cash flow forecast and the debt and/or equity raising options available to the company, the directors of the company are satisfied that, the going concern basis of preparation is appropriate. The financial report has therefore been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

No allowance for such circumstances has been made in the Financial Report.

2d. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

2e. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

Judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements concern the future life of Cryo-Lag.

The following key assumption has been made concerning the future and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

It is currently assumed that Cryo-Lag will generate profitable results in the future, subject to a successful outcome of the current commercialisation activities. Should this assumption prove incorrect then material adjustments may have to be made for impairment losses in respect of Cryo-Lag.

2f. New accounting standards and interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption for financial reporting periods beginning 1 January 2009 but have not been applied in preparing the financial report.

New or revised requirement	Effective for annual reporting periods beginning/ending on or after	More information	Impact on Group
<p><i>AASB 101 Presentation of Financial Statements (Revised September 2007), AASB 2007-8 Amendments to Australian Accounting Standards & Interpretations and AASB 2007-10 Further Amendments to AASBs arising from AASB 101</i></p> <p>The revised standard affects the presentation of changes in equity and comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other AASB standards.</p>	<p>Beginning 1 January 2009</p>	<p>This will be adopted for the year ended 31 December 2009</p>	<p>This is a disclosure standard, so will have no direct impact on amounts in the financial report, other than amendments to disclosures.</p>
<p><i>AASB 123 Borrowing Costs (Revised), AASB 2007-6 Amendments to Australian Accounting Standards 1, 101, 107, 111, 116, 138 and Interpretations 1 & 12</i></p> <p>This revision eliminates the option to expense borrowing costs on qualifying assets and requires that they be capitalised. The Amending Standard eliminates reference to the expensing option in various other pronouncements.</p>	<p>Beginning 1 January 2009</p>	<p>This will be adopted for the year ended 31 December 2009</p>	<p>The adoption of this standard will have no impact on the group.</p>
<p><i>AASB 3 Business Combinations (Revised), AASB 127 Consolidated and Separate Financial Statements (Amended), AASB 2008-3 Amendments to AASBs arising from AASB 3 and AASB 127</i></p> <p>This revision changes the application of acquisition accounting for business combinations and accounting for non-controlling interests. The revised and amended standards incorporate many changes which will have a significant impact on the profit and loss for entities entering into business combinations.</p>	<p>Beginning 1 July 2009</p>	<p>This will be adopted for the year ended 31 December 2010</p>	<p>The impact of this standard on the group has not yet been determined.</p>
<p><i>AASB 8 Operating Segments, AASB 2007-3 Amendments to Australian Accounting Standards 5, 6, 102, 107, 119, 127, 134, 136, 1023 & 1038 arising from AASB 8</i></p> <p>This standard supersedes AASB 114 Segment Reporting, introducing a US GAAP approach of management reporting as part of the convergence project with FASB.</p>	<p>Beginning 1 January 2009</p>	<p>This will be adopted for the year ended 31 December 2009</p>	<p>AASB 8 is a disclosure standard, so will have no direct impact on amounts in the financial report, other than amendments to disclosures.</p>
<p><i>AASB 2008-1 Amendments to Australian Accounting Standards: Share-Based Payments: Vesting Conditions and Cancellations</i></p> <p>This clarifies that vesting conditions comprise service conditions and performance conditions only and that other features of a share-based payment transaction are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.</p>	<p>Beginning 1 January 2009</p>	<p>This will be adopted for the year ended 31 December 2009</p>	<p>The impact of this standard on the group has not yet been determined.</p>

New or revised requirement	Effective for annual reporting periods beginning/ending on or after	More information	Impact on Group
<p><i>AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i></p> <p>This amends and clarifies the following standards AASB 101, AASB 118, AASB 127 and AASB 136 for the treatment of determining the cost of an investment in a subsidiary, jointly controlled entity or associate.</p>	Beginning 1 January 2009	This will be adopted for the year ended 31 December 2009	The impact of this standard on the group has not yet been determined.
<p><i>Interpretation 17 Distributions of Non-cash Assets to Owners</i></p> <p>This Interpretation provides guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its owners, except for common control transactions.</p>	Beginning 1 January 2009	This will be adopted for the year ended 31 December 2009	The impact of this standard on the group has not yet been determined.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

3a Basis of consolidation

(i) Subsidiaries

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 currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

3b Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity (see (ii) below).

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at exchange rates at the dates of the transactions.

The income and expenses of foreign operations in hyperinflationary economies are translated to Australian dollars at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency differences are recognised directly in equity. Such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

3c Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised on the balance sheet when the company becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and financial liabilities classified as held for trading are measured at fair value through profit or loss. Upon initial recognition a financial asset or financial liability is designated as at fair value through profit or loss when:

- (a) an entire contract containing one or more embedded derivatives is designated as a financial asset or financial liability at fair value through profit or loss.
- (b) doing so results in more relevant information, because either:
 - (i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases.
 - (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are not designated as at fair value through profit or loss.

A gain or loss arising from a change in the fair value of a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

Financial assets not measured at fair value comprise:

- (a) loans and receivables being non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest rate method.
- (b) held-to-maturity investments being non-derivative financial assets with fixed or determinable payments and fixed maturity that will be held to maturity. These are measured at amortised cost using the effective interest method.
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are measured at cost together with derivatives that are linked to and must be settled by the delivery of such investments.

Available-for-sale financial assets are non-derivative financial assets which are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or financial assets as at fair value through profit or loss.

A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the financial asset is derecognised at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Regular way purchases of financial assets are accounted for as follows:

- financial assets held for trading - at trade date
- held-to-maturity investments - at trade date
- loans and receivables - at trade date
- available-for-sale financial assets - at trade date

Except for the following all financial liabilities are measured at amortised cost using the effective interest rate method.

- (a) financial liabilities at fair value through profit and loss and derivatives that are liabilities measured at fair value.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or are accounted for using the continuing involvement approach.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectability.

3d Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Plant and buildings 25 years
Motor vehicles 8 years
Production equipment 10 years
Office equipment 5-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3e Intangible assets

Goodwill

Goodwill (discount on acquisition) arises on the acquisition of subsidiaries, associates and jointly controlled entities.

Acquisitions on or after 1 January 2003

For acquisitions on or after 1 January 2003, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (discount on acquisition), it is recognised immediately in profit or loss.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Research and Development Expenditure

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets arising from development activities are recognised when resources are available to complete the assets and future economic benefits from use or sale of the assets is probable.

The directors have currently assessed the useful life of the intangible as set as indefinite because it awaits the result of the commercialisation of Cryo-Lag. In any event, Directors have assessed realisable value to be higher than cost.

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Capitalised development costs 5-7 years

3f Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group's balance sheet. Investment property held under an operating lease is recognised on the Group's balance sheet at its fair value.

3g Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. The cost of inventory may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3h Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available -for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available -for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available -for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available -for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3i Share-based payment arrangements

Goods or services received or acquired in a share-based payment transaction are recognised as a increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted.

Transactions with employees and others providing similar services are measured by reference to the fair value at grant date of the equity instrument granted.

3j Revenue

Sales of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Interest revenue

Interest revenue is recognised using the effective interest method. It includes the amortisation of any discount or premium.

3k Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

3l Exploration and Evaluation Costs

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs are carried forward where the right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial year the decision is made. Each area of interest is also reviewed at the end of each accounting year and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration, evaluation and development costs are amortised on a units of production basis over the life of the economically recoverable reserves.

3m Income Taxes

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

3n Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

3o Finance income and expenses

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

3p Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

3q Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

3r Receivables

Trade accounts and notes receivable and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

3s Trade and Other Payables

Trade accounts, other payables and accrued liabilities represented the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

3t Contingent Liabilities

A contingent loss is recognised as an expense and a liability if it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability incurred and, a reasonable estimate of the amount of the resulting loss can be made.

3u Events after the Balance Sheet Date

Assets and liabilities are adjusted for events occurring after the balance date that provide evidence conditions existing at the balance date. Important after balance date events, which do not meet this criterion, are disclosed where relevant.

3v Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation for the current financial year where required by Australian Accounting Standards or as a result of changes in accounting policies.

NOTE 4 - DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions

The fair value of employee stock options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

NOTE 5 – FINANCIAL RISK MANAGEMENT

Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk
- interest rate risk
- liquidity risk
- market risk
- currency risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. For the Company it arises from receivables due from director-related entities.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

Interest Rate Risk

The Company's principal financial instruments comprise cash and short term deposits. The main purpose of the financial instruments is to earn the maximum amount of interest at a low risk to the Company. The Company also has other financial instruments such as trade debtors and creditors which arise directly from its operations. For the period under review, it has been the Company's policy not to trade in financial instruments.

The Company's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities. The Company's interest-bearing loans are fixed rate instruments and therefore this risk is minimal.

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 approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD), but also the Chinese Renminbi (RMB) and Hong Kong Dollar (HKD). The currencies in which these transactions primarily are denominated are AUD, RMB and HKD.

NOTE 6 – SEGMENT REPORTING

Segment information is presented in respect of the consolidated entity's business segments, which are the primary basis of reporting. The business-reporting format reflects the consolidated entity's management structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue and corporate assets and expenses.

Business segments

The consolidated entity's operations in 2008 are managed in Australia. The consolidated entity comprises of the following main business segments:

Industrial insulation - the industrial insulation products industry and the commercialisation of its Cryo-Lag assets.

Exploration - the Company's subsidiary commenced exploring for minerals in the 2006 financial year.

Magnet manufacturing – see note 7.

Geographical segments

The consolidated entities' offices are operated in Australia and China. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

NOTE 6 – SEGMENT REPORTING

Business segments

	Industrial Insulation		Exploration		Magnet Material* (Discontinued)		Unallocated		Eliminations		Consolidated		Less Magnet Material)* (Discontinued)		Continuing operations	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
In AUD																
Revenue																
Revenue from external customers	-	-	-	-	266,143	49,407	-	-	-	-	266,143	49,407	(266,143)	(49,407)	-	-
Total revenue from external customers	-	-	-	-	266,143	49,407	-	-	-	-	266,143	49,407	(266,143)	(49,407)	-	-
Unallocated revenue					-	-					-	-			-	-
Total revenue	-	-	-	-	266,143	49,407	-	-	-	-	266,143	49,407	(266,143)	(49,407)	-	-
Operating result																
Segment result	-	-	-	-	(645,785)	(274,910)	-	-	-	-	(645,785)	(274,910)	645,785	274,910	-	-
Unallocated expenses	-	-	-	-	-	-	(2,077,117)	(508,470)	-	-	(2,077,117)	(508,470)	-	-	(2,077,117)	(508,470)
Profit before financing costs											(2,772,902)	(783,380)	645,785	274,910	(2,077,117)	(508,470)
Net finance income (expense)	-	-	-	-	-	(49,889)	94,329	-	-	-	94,329	(49,889)	-	49,889	94,329	-
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the period											(2,628,573)	(833,269)	645,785	324,799	(1,982,788)	(508,470)
Depreciation	-	-	-	-	(209,388)	(5,925)	(4,607)	-	-	-	(213,995)	(5,925)	-	-	-	-
Non-cash expenses					-	(11,163)	-	-	-	-	-	(11,163)	-	-	-	-
Assets																
Segment assets	113,898	105,750	476,768	450,953	-	10,488,074	4,243,959	4,626,493	-	(3,011,099)	4,834,625	12,660,171				
Investment in associates	-	-	-	-	-	-	-	-	-	-	-	-				
Total assets											4,834,625	12,660,171				
Liabilities																
Segment liabilities	-	-	-	-	-	7,107,552	311,107	194,858	-	-	311,107	7,302,410				
Total liabilities											311,107	7,302,410				
Capital expenditure	-	-	-	-	2,341,516	525,842	39	-	-	-	2,341,555	525,842				
Depreciation	-	-	-	-	209,388	5,925	4,607	-	-	-	213,995	5,925				

Geographical segments

Geographic segments	Australia		China		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
In AUD								
Revenue from external customers	-	-	-	49,407	-	-	-	49,407
Segment assets	5,699,759	5,183,196	3,063,623	10,488,074	(3,928,757)	(3,011,099)	4,834,625	12,660,171
Capital expenditure	-	-	2,341,555	525,842	-	-	2,341,555	525,842

NOTE 7 – ACQUISITION OF SUBSIDIARIES AND MINORITY INTERESTS

No subsidiaries were acquired during the year ended 31 December 2008.

During the year ended 31 December 2007, the Company incorporated two subsidiaries, KTL Technologies Hong Kong Limited and Jilin Australia Energy Technology Company Limited, and acquired 65% of the shares in Jilin Huisheng Strong Magnet Company Limited.

KTL Technologies HK Limited was incorporated on 16 January 2007. As of 31 December 2007, KTL Technologies HK Limited has not commenced commercial activities.

Jilin Australia Energy Technology Company Limited was incorporated on 19 April 2007. During the prior period, the Company transferred the equivalent of RMB20,000,000 (A\$3,011,099) as capital contribution.

On 7 September 2007 the Group acquired 65% of the shares in Jilin Huisheng Strong Magnet Company Limited (“JHSM”) for RMB5,000,000 (equivalent to AUD748,682) in cash. JHSM’s major activities comprise: manufacturing and sales of magnetic material and its applicants, special equipments for magnetic materials; export of self-produced products and relevant technology; import of raw material, equipment, instrument, spare parts and relevant technology relating to its business and research; and original equipment manufacturing (OEM).

JHSM owns 51% of the shares of Beijing Beililong Magnet Material Technology Co. Ltd (“BBMMT”), which performs research and development in relation to magnetic material manufacture processing and specifications.

During the period from 7 September 2007 to 31 December 2007, JHSM contributed a loss of RMB1,997,198(A\$303,451).

If the acquisition had occurred on 1 January 2007, management estimates that consolidated revenue would have been RMB1,112,412(A\$174,190) and consolidated loss for the period would have been RMB 4,948,149 (A\$774,819). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2007.

The acquisition had the following effect on the Group’s assets and liabilities on acquisition date:

	Recognised Value on acquisition in 2007
Property, plant and equipment	5,903,981
Deferred costs	-
Intangible assets	1,124,552
Inventories	372,377
Trade and other receivables	1,122,864
Cash and cash equivalents	602,276
Loans and borrowings	(963,902)
Prepaid tax	241,090
Trade and other payables	(7,165,273)
Net identifiable assets and liabilities	<u>1,237,965</u>
Acquisition of 65% of net assets	804,677
Discount on acquisition	(1,425)
Consideration paid, satisfied in cash	803,252
Foreign exchange rate effect	(54,570)
Cash outflow	748,682
Cash acquired	(602,276)
Net Cash Flow	<u>146,406</u>

The Directors of the Company had made fair value assessment on all assets and liabilities of JHSM and BBMMT as at the acquisition date. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values (see note 4 for methods used in determining fair values).

NOTE 8 – DISCONTINUED OPERATIONS

On 24 December 2008 the Group disposed its entire Magnet Material segment (JHSM and BBMMT) and KTL Technologies Hong Kong Limited by in specie distribution. These companies were not discontinued operations or classified as held for sale as at 31 December 2007 and the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to dispose these companies late in 2008 due to the strategic decision to solely focus on its mineral business,

	Consolidated	Consolidated
	2008	2007
Note	\$	\$
Results of discontinued operations		
Revenue	266,143	49,407
Expenses	(911,928)	(374,206)
Results from operating activities	(645,785)	(324,799)
Income tax	-	-
Results from operating activities, net of income tax	(645,785)	(324,799)
Gain on sale of discontinued operation	-	-
Income tax on gain on sale of discontinued operation	-	-
Profit (loss) for the period	(645,785)	(324,799)
Basic earnings (loss) per share (cents)	(0.16)	(0.11)
Diluted earnings (loss) per share (cents)	(0.16)	(0.11)
Cash flows from (used in) discontinued operation		
Net cash used in operating activities	(847,650)	(380,155)
Net cash from investing activities	(805,585)	(569,994)
Net cash from financing activities	88,533	2,235,148
Cash acquired from acquisition of subsidiary	-	602,276
Effect of exchange rate fluctuations on cash held	34,591	(23,882)
Net cash from (used in) discontinued operations	(1,530,111)	1,863,393
Effect of disposal on the financial position of the Group	Note	2008
Property, plant and equipment	8,534,187	
Inventories	1,334,626	
Trade and other receivables	1,721,702	
Cash and cash equivalents	334,912	
Intangible assets	2,122,289	
Trade and other payables	(4,287,947)	
	(10,340,381)	
Net assets and liabilities	(580,612)	
Consideration received	-	
Cash disposed of	(334,912)	
Net cash flow	(334,912)	

NOTE 9 - REVENUE

Continuing Operations

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
Sales	-	-	-	-
	-	-	-	-
Interest received – Unrelated	94,329	58,846	32,226	50,267
Interest - subsidiary	-	-	270,788	61,339
	94,329	58,846	303,014	111,606

Discontinued operations

	Consolidated 2008	Consolidated 2007
	\$	\$
Sales	266,143	49,407
	266,143	49,407
Interest received – Unrelated	-	2,345
	266,143	51,752

NOTE 10 - INCOME TAX EXPENSE

Major components of income tax expense

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
Current income tax expense (benefit)	(788,572)	(218,118)	(295,595)	(124,572)
Benefit of tax loss not brought to account	788,572	218,118	295,595	124,572
Income tax expense	-	-	-	-
Reconciliation between income tax expense and prima facie tax on accounting loss				
Accounting loss	(2,628,573)	(727,061)	(985,315)	(415,239)
Tax at 30% (2007: 30%)	(788,572)	(218,118)	(295,595)	(124,572)
Tax effect of non-deductible expenses	-	-	-	-
Benefit of tax loss not brought to account	788,572	218,118	295,595	124,572
Income tax expense from continuing operations	-	-	-	-
Income tax expense from discontinued operations	-	-	-	-
	-	-	-	-
Income tax expense on gain on sale of discontinued operations	-	-	-	-
Total income tax expense				

Applicable tax rate

The applicable tax rate is the national tax rate in Australia.

Analysis of deferred tax assets

No deferred tax assets have been recognised as yet. The Company currently has income tax losses of \$ 1,086,462. The Company's ability to utilise the carry forward tax losses rests with it being able to pass the necessary requirements in the tax legislation.

Tax-consolidated group

The entity has yet to make an election to consolidate and be treated as single entity for income tax purposes. The method adopted for measuring the current and deferred tax amounts is:

- consolidated current and deferred tax amounts have been determined in accordance with AASB 112;
- each entity in the consolidated group has been allocated consolidated current and deferred tax amounts in a manner consistent with the broad principles of AASB 112.

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

<i>in AUD</i>	Land	Plant	Production Equipment	Office Equipment	Motor Vehicles	Total	Parent Total
Cost							
Balance at 1 January 2007	-	-	-	-	-	-	-
Acquisitions	-	398,768	-	11,093	115,981	525,842	-
Acquisitions through business combinations	655,355	1,646,427	3,530,982	34,828	55,179	5,922,771	-
Effect of movements in foreign exchange	-	-	-	-	-	-	-
Balance at 31 December 2007	655,355	2,045,195	3,530,982	45,921	171,160	6,448,613	-
Balance at 1 January 2008	655,355	2,045,195	3,530,982	45,921	171,160	6,448,613	-
Acquisitions	-	1,865,237	460,242	16,076	-	2,341,555	-
Disposals	(655,355)	(3,910,432)	(3,991,224)	(61,997)	(131,472)	(8,750,480)	-
Effect of movements in foreign exchange	-	-	-	-	-	-	-
Balance at 31 December 2008	-	-	-	-	39,688	39,688	-
Depreciation and impairment losses							
Balance at 1 January 2007	-	-	-	-	-	-	-
Depreciation charge for the year	-	-	375	2,396	3,154	5,925	-
Additions through business combinations	-	-	529	385	507	1,421	-
Effect of movements in foreign exchange	-	-	-	-	-	-	-
Balance at 31 December 2007	-	-	904	2,781	3,661	7,346	-
Balance at 1 January 2008	-	-	904	2,781	3,661	7,346	-
Depreciation charge for the year	27,070	69,173	76,787	17,471	23,494	213,995	-
Offset of accumulated depreciation of discontinued operations	(27,070)	(69,173)	(77,691)	(20,252)	(22,107)	(216,293)	-
Effect of movements in foreign exchange	-	-	-	-	-	-	-
Balance at 31 December 2008	-	-	-	-	5,048	5,048	-
Carrying amounts							
At 1 January 2007	-	-	-	-	-	-	-
At 31 December 2007	655,355	2,045,195	3,530,078	43,140	167,499	6,441,267	-
At 1 January 2008	655,355	2,045,195	3,530,078	43,140	167,499	6,441,267	-
At 31 December 2008	-	-	-	-	34,640	34,640	-

During the year ended 31 December 2008, \$1,865,237(2007:\$398,768) was spent on construction of the production plant, and production equipment of \$476,318 (2007:\$127,074) was purchased during the year.

NOTE 12 – EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
Exploration and evaluation expenditure	476,678	450,953	-	-
Reconciliation of carrying amount				
Carrying amount at 1 January	450,953	381,091	-	-
Acquisition Costs	-	-	-	-
Expenditure in current period	25,725	69,862	-	-
Expenditure written off	-	-	-	-
Carrying amount 31 December	476,678	450,953	-	-

NOTE 13 – INTANGIBLE ASSETS

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
Cryo-Lag	113,898	105,750	113,898	105,750
HDDR Technology	-	1,091,618	-	-
	113,898	1,197,368	113,898	105,750
Reconciliation of carrying amount				
Cryo-Lag				
Carrying amount at 1 January	105,750	72,660	105,750	72,660
Expenditure in current period	8,148	33,090	8,148	33,090
Carrying amount 31 December	113,898	105,750	113,898	105,750
HDDR Technology				
Carrying amount at 1 January	1,091,618	-	-	-
Disposal of discontinued operation	(1,091,618)	1,091,618	-	-
Carrying amount 31 December	-	1,091,618	-	-

The intangible assets of \$1,091,618 is the technology of producing Hydrogenation Disproportionation Desorption Recombination (HRRD) Anisotropic Bonded Neodymium Iron Boron (NdFeB) Powder, anisotropic injection /compression molded bonded NdFeB magnet, isotropic injection/compression molded bonded NdFeB magnet and injection molded hard ferrite magnet. The products are mainly used in micro-motors, instruments, sensors, electro-magnetic acoustic devices. University of Science & Technology Beijing and Jilin Huisheng Strong Magnet Co Ltd entered into a contract on Oct 16, 2001 to permanently transfer the technology in relation to manufacturing HDDR powder to Strong Magnet at RMB7,000,000.

NOTE 14 – INVENTORIES

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
Raw materials and consumables	-	135,310	-	-
Work in progress	-	107,896	-	-
Finished goods	-	184,394	-	-
Carrying amount 31 December	-	427,600	-	-

NOTE 15 - TRADE AND OTHER RECEIVABLES

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
Trade receivables	-	50,660	-	-
Other receivables	15,095	535,292	7,440	2,044
Carrying amount 31 December	15,095	585,952	7,440	2,044

NOTE 16 - CASH AND CASH EQUIVALENTS

16a Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents included in the cash flow statement comprise the following amounts:

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
Cash and cash equivalents	535,914	2,864,818	535,158	898,240
Carrying amount 31 December	535,914	2,864,818	535,158	898,240

16b Reconciliation of net cash used in operating activities to loss

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
Profit (Loss) after income tax	(2,628,573)	(833,269)	(985,315)	(415,239)
Adjustment for:				
Depreciation	4,607	5,925	-	-
Share based payment	1,250,000	-	1,250,000	-
Gain on acquisition of subsidiary	-	1,425	-	-
Loss on disposal of discontinued operations	645,785	-	-	-
Finance expense	-	52,234	-	-
Impairment loss on trade receivables	-	11,163	-	-
Foreign exchange gain	-	-	(745,898)	-
Interest income from controlled entities	-	-	(270,788)	(61,339)
Operating loss before changes in working capital and provisions	(728,181)	(762,522)	(752,001)	(476,578)
Changes in assets and liabilities during the financial period:				
Decrease/(increase) in accounts receivable and prepayments	(12,437)	3,617	(5,396)	(8,147)
Increase/(decrease) in inventories	-	(64,431)	-	-
Increase in intangible assets	-	-	-	-
Increase/(decrease) in accounts payable and other creditors payable	117,947	121,368	117,982	173,356
Decrease/(increase) in other assets	(673,285)	(27,257)	(1,798)	(31,809)
	(1,295,956)	(729,225)	(641,213)	(343,178)

16c Non cash investing and financing activities

The Group did not carry out non-cash investing and financing activities during the year ended 31 December 2008.

NOTE 17 – OTHER FINANCIAL ASSETS

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
CURRENT				
Tax account	3,585	265,572	3,585	912
Prepayments	4,855	371,310	4,855	6,079
Deposits	10,236	9,888	10,236	9,888
Interest bearing loans	908,284	45,443	-	-
Receivable from KTL HK	619,150	-	619,150	-
Carrying amount 31 December	1,546,110	692,213	637,826	16,879
NON-CURRENT				
Loan to controlled entities	-	-	3,666,260	3,529,101
Investment in controlled entities – at cost	-	-	819,521	819,522
Interest bearing loan	2,112,289	-	-	-
Carrying amount 31 December	2,112,289	-	4,485,781	4,348,623

NOTE 18 – EARNINGS PER SHARE

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
Reconciliation of earnings per share	Cents	Cents	Cents	Cents
Earnings per share – Continuing Operations				
Basic loss per share (cents)	(0.47)	(0.17)		
Diluted loss per share (cents)	(0.47)	(0.17)		
Earnings per share – Equity holders of company				
Basic earnings per share (cents)	(0.63)	(0.24)		
Diluted earnings per share (cents)	(0.63)	(0.24)		
Profit (loss) from discontinued operations used in the calculation of the basic earnings per share and diluted earnings per share	(645,785)	(324,799)		
Profit (loss) from ordinary activities attributable to parent entity after income tax being the earnings used in the calculation of the basic earnings per share and diluted earnings per share	(2,628,573)	(727,061)		
Reconciliation of weighted average number of ordinary shares	No. of shares	No. of shares		
Weighted average number of ordinary shares: Used in calculating basic earnings per ordinary shares	419,824,118	311,591,703		
Adjustments: Dilutive potential ordinary shares (i) Used in calculating diluted earnings per share	-	-		
	419,824,118	311,591,703		

(i) The options are excluded from calculation of diluted earnings per share due to them potentially diluting basic earnings per share because they are anti-dilutive in 2008.

NOTE 19 – LOANS AND BORROWINGS

This note provides information about the contractual of the Company's and Group's interest bearing loans and borrowings, which are amortised at cost.

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
Current liabilities				
Short term secured bank loan	-	935,673	-	-
Other interest-bearing loans	-	1,031,758	-	-
	-	1,967,431	-	-
Non current liabilities				
Interest-bearing loans	-	3,534,550	-	-
Carrying amount 31 December	-	3,534,550	-	-

NOTE 20 – TRADE AND OTHER PAYABLES

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
	\$	\$	\$	\$
CURRENT				
Trade accounts payable	311,107	1,720,626	311,107	193,125
Other payables	-	109	-	-
Employee benefits payable	-	2,152	-	-
Advance receipts from customers	-	32,310	-	-
Tax payables – China	-	45,232	-	-
	311,107	1,800,429	311,107	193,125
Total trade and other payables	311,107	1,800,429	311,107	193,125

The carrying amounts of trade and other payables approximate their fair values.

NOTE 21 - SHARE BASED PAYMENTS

The commercial production of Hydrogenation Disproportionation Desorption Recombination of Anisotropic Bonded Neodymium Iron Boron Powder (HDDR powder) by JHSM has commenced and an HDDR Powder production of 6 tonnes per week has been achieved continuously over a four week production period during March to April 2008.

As approved at the Company's EGM held on 15 February 2008, an aggregate of 50,000,000 ordinary shares was allotted and issued to the Key Employees of Jilin Huisheng Strong Magnet Company Limited on 7 May 2008.

The fair value of the 50,000,000 ordinary shares was measured at AUD0.025 which was the market price on the date of issuance totalling \$1,250,000.

No options were granted during year ended 31 December 2008.

NOTE 22 – FINANCIAL INSTRUMENTS

Credit Risk

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure.

The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated	
	2008	2007
	\$	\$
Trade and other receivables	15,095	585,952
Other financial assets	3,658,399	692,213
Cash and cash equivalents	535,914	2,864,818
	4,209,408	4,142,983

The Company's maximum exposure to credit risk at the reporting date was \$15,095 (2007: \$585,952 for trade and other receivables, \$3,658,399 (2007: \$692,213) for other financial assets, and \$535,914 (2007: \$2,864,818) for cash and cash equivalents, totalling \$4,209,408 (2007: \$4,142,983).

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Consolidated	
	2008	2007
	\$	\$
Australia	7,440	-
China	7,655	585,952
	15,095	585,952

The Company's maximum exposure to credit risk for receivables at the reporting date by geographic region was \$7,440 (2007: nil) for Australia, \$7,655 (2007: \$585,952) for China, totalling \$15,095 (2007: \$585,952). All receivables are within subsidiaries.

Impairment losses

As at 31 December 2008, \$nil (2007: \$23,464) of the Company's receivables was past due. The ageing of the Group's trade receivables at the reporting date was:

	2008		2007	
	Gross \$	Impairment \$	Gross \$	Impairment \$
Not past due	15,095	-	27,196	-
Past due 0-30 days	-	-	39	-
Past due 31-150 days	-	-	22,109	-
Past due 151-365 days	-	-	1,316	-
More than one year	-	-	-	11,163
	15,095	-	50,660	11,163

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Consolidated

31 December 2008

Non-derivatives financial liabilities	Carrying amount	Contractual cashflow	Under 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	(311,107)	-	(311,107)	-	-	-	-
	(311,107)	-	(311,107)	-	-	-	-

Consolidated

31 December 2007

Non-derivatives financial liabilities	Carrying amount	Contractual cashflow	Under 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Secured bank loans	(935,673)	(935,673)	(935,673)	-	-	-	-
Other interest bearing loans	(1,031,758)	(1,031,758)	(1,031,758)	-	-	-	-
Long term loan	(3,534,550)	(3,534,550)	-	-	(3,534,550)	-	-
Trade and other payables	(1,800,429)	(1,800,429)	(1,542,475)	(129,264)	(7,341)	(121,349)	-
	(7,302,410)	(7,302,410)	(3,509,906)	(129,264)	(3,541,891)	(121,349)	-

Parent

31 December 2008

Non-derivatives financial liabilities	Carrying amount	Contractual cashflow	Under 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	311,107	-	311,107	-	-	-	-
	311,107	-	311,107	-	-	-	-

Parent

31 December 2007

Non-derivatives financial liabilities	Carrying amount	Contractual cashflow	Under 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	193,125	-	193,125	-	-	-	-
	193,125	-	193,125	-	-	-	-

Currency risk

The following significant exchange rates applied during the year:

AUD\$1	Average Rate		Reporting date rate	
	2008	2007	2008	2007
HKD	6.6444	6.7705	5.3534	6.8428
RMB	5.9449	6.5816	4.7342	6.4125
USD	0.8530	0.8673	0.6907	0.8757

The acquisition date AUD/RMB exchange rate of 6.2247 is applied for translation of acquisition of assets and liabilities of Jilin Huisheng Strong Magnet Co Ltd on 7 September 2007.

Sensitivity analysis

A 20 percent strengthening of the Australian dollar against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the basis of a 10 percent strengthening of the Australian dollar against the foreign currencies for 2007.

Effect in AUD	Consolidated		Parent	
	Equity \$	Profit \$	Equity \$	Profit \$
31 December 2008				
HKD	(10,700)	(10,700)	-	-
RMB	(322,533)	182,298	-	-
USD	-	-	-	-
31 December 2007				
HKD	(61,230)	2,446	-	-
RMB	476,841	198,189	-	-
USD	-	-	-	-

A 20 percent weakening of the Australian dollar against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

At the reporting date the interest rate profile of the Company's and the Group's interest - bearing financial instruments was:

	Consolidated carrying amount		Parent carrying amount	
	2008	2007	2008	2007
Fixed rate instruments				
Secured bank loans	-	935,673	-	-
Other interest bearing loans - current	-	1,031,758	-	-
Interest bearing loans – non-current	-	3,534,550	-	-
	-	5,501,981	-	-

The other financial instruments of the Company that are not included in the above table are non -interest bearing and therefore not subject to interest rate risk.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Fair Values

Set out below is a comparison by category of the carrying amounts and fair values of all of the Company's financial instruments that are carried in the balance sheet:

Consolidated

	Note	Carrying amount	Fair Value	Carrying amount	Fair Value
		2008 \$	2008 \$	2007 \$	2007 \$
ASSETS					
Cash and cash equivalents	16	535,914	535,914	2,864,818	2,864,818
Trade and other receivables	15	15,095	15,095	585,952	585,952
Other financial assets – current	17	1,546,110	1,546,110	692,213	692,213
Other financial assets – non-current	17	2,112,289	2,112,289	-	-
LIABILITIES					
Trade and other payables	20	311,107	311,107	1,800,429	1,800,429
Interest bearing loan – current	19	-	-	1,967,431	1,967,431
Interest bearing loan – non-current	19	-	-	3,534,550	3,534,550

Parent

	Note	Carrying amount		Fair Value	
		2008	2008	2007	2007
		\$	\$	\$	\$
ASSETS					
Cash and cash equivalents	16	535,158	535,158	898,240	898,240
Trade and other receivables	15	7,440	7,440	2,044	2,044
Other financial assets – current	17	637,826	637,826	16,879	16,879
Other financial assets – non-current	17	4,485,781	4,485,781	4,348,623	4,348,623
LIABILITIES					
Trade and other payables	20	311,107	311,107	193,125	193,125

NOTE 23 – LEASES

Operating leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		Company	
	2008	2007	2007	2007
	\$	\$	\$	\$
Less than one year	-	22,383	-	-
Between one and five years	-	-	-	-
More than five years	-	-	-	-
Total	-	22,383	-	-

NOTE 24 – CAPITAL AND OTHER COMMITMENTS

	Consolidated	Consolidated	Parent	Parent
	2008	2007	2008	2007
	\$	\$	\$	\$
Joint venture commitments				
<i>Expenditure commitments of the group to the joint venture operation:</i>				
Within one year	54,000	54,000	54,000	54,000
	54,000	54,000	54,000	54,000
Employee compensation commitments				
<i>Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:</i>				
Within one year	218,000	218,000	218,000	218,000
One year or later and no later than five years	436,000	654,000	436,000	654,000
	654,000	872,000	654,000	872,000

The 2008 expenditure commitment has not been met as the Company placed its focus on company restructuring during the 2008 financial year and delayed the planned drill programme to explore the channel mineralisation of the Zone 4 prospect further evaluate the mineralisation at Walkers Prospect. An application for exemption has been lodged with the Department of Mines and Energy. Upon the finalisation of in specie distribution, the Company will be planning the commencement of the drill programme.

NOTE 25 – CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets, listed as nil (2007: nil).

NOTE 26 – RELATED PARTY DISCLOSURES

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of KTL Technologies Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of KTL Technologies Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy, setting the terms and conditions (where appropriate) for the executive directors and other senior staff members, was developed by the Chairman and approved by the Board.

In determining competitive remuneration rates, the Board (where appropriate) seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice may be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

The Company is in a commercialisation phase, and therefore speculative in terms of performance. Consistent with (and where appropriate) attracting and retaining talented executives, directors and senior executives, are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives may be issued and key performance indicators such as profit and share price growth can be used as measurements for assessing executive performance.

All remuneration paid to directors is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Chairman in consultation with independent advisors (where appropriate) determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is currently \$300,000 per annum approved by shareholders on 4 March 2005. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

COMPANY SHARE PERFORMANCE & SHAREHOLDER WEALTH

During the financial year the Company's share price traded between a low of **\$0.005** and a high of **\$0.029**. In order to keep all investors fully-informed and minimise market fluctuations the Board is determined to maintain promotional activity amongst the investor community so as to increase awareness of the Company.

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

(a) Details of Specified Directors and Specified Executives

Specified Directors

Weiwen Cheng – Non-Executive Director

Qingquan Cheng – Non-Executive Director

Dayong Hu – Chairman (since 1 September 2008), Non-Executive Director (until 1 September 2008)

Russell Byfield – Non-Executive Chairman (resigned on 11 July 2008)

Haolin Li - Non-Executive Director

Gang Xu - Non-Executive Director

Rachel Wong - Non-Executive Director (appointed on 1 September 2008)

Specified Executives

Dayong Hu – General Manager (appointed on 1 January 2008)

Rachel Wong – Company Secretary (appointed on 10 September 2007)

Directors' remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year, relative comparative information and independent expert advice.

Except as detailed in Notes (a) – (f) to the Remuneration Report, no director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in Notes (a) – (f) to the Remuneration Report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Company.

(b) Remuneration of Specified Directors and Specified Executives

Remuneration Policy

The Board of Directors, comprising of non-executive directors, is responsible for determining and reviewing compensation arrangements. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Remuneration of Specified Directors for the Company and consolidated entity is set out below.

Period ended:	Short-term employee benefits	Equity Compensation	Post-employment	TOTAL
	Base Salary and Fees	Value of Options	Superannuation Contributions	
	\$	\$	\$	\$
Specified Directors				
Weiwen Cheng				
31 December 2008	30,000	-	-	30,000
31 December 2007	30,000	-	-	30,000
Qingquan Cheng				
31 December 2008	30,000	-	-	30,000
31 December 2007	30,000	-	-	30,000
Dayong Hu				
31 December 2008	30,000	-	-	30,000
31 December 2007	30,000	-	-	30,000
Russell Byfield (resigned on 11 July 2008) (i)				
31 December 2008	39,232	-	-	39,232
31 December 2007	32,500	-	-	32,500
Rachel Wong (appointed on 1 September 2008)				
31 December 2008	10,000	-	-	10,000
31 December 2007	-	-	-	-
Haolin Li				
31 December 2008	31,048	-	-	31,048
31 December 2007	-	-	-	-
Gang Xu				
31 December 2008	31,048	-	-	31,048
31 December 2007	-	-	-	-
Lei Li (appointed on 1 April 2008)				
31 December 2008	-	-	-	-
31 December 2007	-	-	-	-
John Fletcher (resigned on 17 December 2007)				
31 December 2008	-	-	-	-
31 December 2007	28,897	-	-	28,897
Barry Woodhouse (resigned on 17 December 2007)				
31 December 2008	-	-	-	-
31 December 2007	49,288	-	723	50,011
Totals				
31 December 2008	201,328	-	-	201,328
31 December 2007	200,685	-	723	201,408
Specified Executive				
Dayong Hu (appointed on 1 January 2008) (ii)				
31 December 2008	201,100	-	-	201,100
31 December 2007	-	-	-	-
Rachel Wong (iii)				
31 December 2008	156,483	-	-	156,483
31 December 2007	58,972	-	-	58,972
Totals				
31 December 2008	357,583	-	-	357,583
31 December 2007	58,972	-	-	58,972

- (i) In the twelve months to 31 December 2008, consulting fees of \$39,232 (2007: \$30,000) were paid and accrued to Strategy Central Pty Ltd for technical services provided by Mr Russell Byfield. Mr Byfield is a director and shareholder of Strategy Central Pty Ltd.
- (ii) In the twelve months to 31 December 2008, fees of \$201,100 (31 December 2007: \$Nil) were paid and or accrued to Lion Liaison Limited (an associated entity of Mr Hu), for the services provided for the year in his role as the General Manager the Company.
- (iii) In the twelve months to 31 December 2008, fees of \$156,483 (31 December 2007: \$58,972) were paid and or accrued to Abilia Pty Limited (a Company in which Ms Wong is a Director and Shareholder), for company secretarial and accounting services provided for the year in its role as consultant to the Company.

All transactions were entered into on normal commercial terms.

(d) Remuneration Options: Granted and vested during the financial year ending 31 December 2007 and the financial year ending 31 December 2008

On 4 March 2005 shareholders approved the issue of a total of 6 million options (for no consideration) as follows:

- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr John Fletcher.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Ms Cheng Weiwen.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Cheng Qingquan.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Hu Dayong.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Russell Byfield.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 4 March 2008, and expire 4 March 2010. All options vest 36 months after issue and are not performance related.

On 29 July 2005 shareholders approved the issue of a total of 9 million options (for no consideration) as follows:

- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr John Fletcher.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Russell Byfield.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 29 July 2007, and expire 29 July 2010. All options vest 24 months after issue and are not performance related.

On 29 May 2006 shareholders approved the issue of a total of 12 million options (for no consideration) as follows:

- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr John Fletcher.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Ms Cheng Weiwen.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Cheng Qingquan.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Hu Dayong.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Russell Byfield.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 5.00 cents. The options are escrowed and may only be exercised after 29 May 2008, and expire 29 May 2011. All options vest 24 months after issue and are not performance related.

Basis of valuation

The Black & Scholes methodology has been used, together with the following assumptions for the options issued on 29 May 2006:

- The risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the Incentive Options as at 29 May 2006 – 6.25%;
- The underlying security spot price used for the purposes of the valuation is based on the share price of the Company was \$0.015;
- The volatility factor is set as 70% which is based on an average of comparable companies' historical data from the Australian Graduate School of Management's Risk Measurement Service.

(e) Share and Option holdings

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

Shares held by Specified Directors
Period from 1 January 2008 to 31 December 2008

	Balance at beginning of year	Received as Remuneration	Options Exercised	Net Change Other	Balance at end of year
Weiwen Cheng	27,000,000	-	-	-	27,000,000
Qingquan Cheng	3,000,000	-	-	-	3,000,000
Dayong Hu	5,000,000	-	-	-	5,000,000(i)
Russell Byfield*	7,000,000	-	-	800,000	7,800,000(ii)
Rachel Wong**	3,746,000	-	-	650,000	4,396,000 (iii)
Haolin Li	-	-	-	-	-
Gang Xu	-	-	-	-	-
	45,746,000	-	-	1,450,000	47,196,000

- iv. Held indirectly by Ms Lei Li, wife of Mr Hu.
v. Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
vi. Held indirectly by Mr Yim Ming Wong and Ms Elizabeth Lai, parents of Ms Wong.
* Russell Byfield resigned as director on 11 July 2008.
** Rachel Wong was appointed as director on 1 September 2008.

Period 1 January 2007 to 31 December 2007

	Balance at beginning of year	Received as Remuneration	Options Exercised	Net Change Other	Balance at end of year
John Fletcher*	29,861,854	-	-	3,600,593	33,462,447 (i)
Cheng Weiwen	27,000,000	-	-	-	27,000,000
Cheng Qingquan	3,000,000	-	-	-	3,000,000
Hu Dayong	5,000,000	-	-	-	5,000,000(ii)
Russell Byfield	7,000,000	-	-	-	7,000,000(iii)
Barry Woodhouse*	1,000,000	-	-	-	1,000,000(iv)
Haolin Li	-	-	-	-	-
Gang Xu	-	-	-	-	-
	72,861,854	-	-	3,600,593	76,462,447

- v. Held indirectly by FF Financial Services Limited, Cleveland Investment Group Limited and Asian Cleveland Limited.
vi. Held indirectly by Ms Li Lei, wife of Mr Hu Dayong.
vii. Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
viii. Held indirectly by Mr B Woodhouse as trustee for the Woodhouse Trust. Mr Woodhouse is a beneficiary of the Woodhouse Trust.
* John Fletcher and Barry Woodhouse resigned as directors on 17 December 2007.

Options Held By Specified Directors
Period from 1 January 2008 to 31 December 2008

	Balance at beginning of year	Received as Remuneration	Net Change Other	Balance at end of year	Total Vested	Total Exercisable+
Weiwen Cheng	3,000,000	-	-	3,000,000	3,000,000	-
Qingquan Cheng	3,000,000	-	-	3,000,000	3,000,000	-
Dayong Hu	3,000,000	-	-	3,000,000	3,000,000	-
Russell Byfield***	6,000,000	-	-	6,000,000	6,000,000	3,000,000
Rachel Wong*	1,808,000	-	800,000	2,608,000	2,608,000	2,608,000
Haolin Li	-	-	-	-	-	-
Gang Xu	-	-	-	-	-	-
Lei Li**	-	-	-	-	-	-
	16,808,000	-	800,000	17,608,000	17,608,000	5,608,000

+ Please note that these options have yet to be exercised, and refers to options that can be exercised.

(ii) Refer to note (d) above for terms of options granted to directors.

* Rachel Wong was appointed as director on 1 September 2008.

** Lei Li was appointed as alternate director to Weiwen Cheng on 1 April 2008.

*** Russell Byfield resigned as director on 11 July 2008.

Period from 1 January 2007 to 31 December 2007

	Balance at beginning of year	Received as Remuneration	Net Change Other	Balance at end of year	Total Vested	Total Exercisable+
John Fletcher*	10,750,000	-	-	10,750,000	10,750,000	7,750,000
Weiweng Cheng	3,000,000	-	-	3,000,000	3,000,000	-
Qingquan Cheng	3,000,000	-	-	3,000,000	3,000,000	-
Dayong Hu	3,000,000	-	-	3,000,000	3,000,000	-
Russell Byfield	6,000,000	-	-	6,000,000	6,000,000	3,000,000
Barry Woodhouse*	6,000,000	-	-	6,000,000	6,000,000	3,000,000
	31,750,000	-	-	31,750,000	31,750,000	13,750,000

* John Fletcher and Barry Woodhouse resigned as directors on 17 December 2007 .

(f) Other key management personnel transactions

During the year ended 31 December 2008, there were no other key management personnel transactions other than those disclosed above.

During the year ended 31 December 2007:

(i) The Group used the consultancy services of Lion Liason Limited (an associate company of Mr Hu) in relation to fund raising. A fee of \$59,381 was paid. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(ii) The Group used the consultancy services of Somerley Limited (a Company in which Mr Fletcher is a Director and Shareholder) in relation to pre-acquisition investigation of JHSM. A fee of \$47,136 was paid. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

Loans from the Company

As at 31 December 2008, the outstanding loan balances due from KTL Uranium Limited and Jilin Huisheng Strong Magnet Company Limited was \$557,024(2007:\$492,201) and \$3,020,573(2007: \$nil) respectively. Interest is charged on the inter-company loan at a rate of 7% per annum on the outstanding balance. A total of \$37,048 (2007:\$30,317), and \$171,759 (2007:\$nil) has been charged to KTL Uranium Limited and Jilin Huisheng Strong Magnet Company Limited for respective outstanding balances between the companies.

Loans to Company

There were no loans made to the Company for the financial year s ended 31 December 2008 (2007: nil).

NOTE 27 – GROUP ENTITIES

Parent Entity – KTL Technologies Limited

	Note	Country of incorporation	Proportion of ownership	
		Residence	2008	2007
Significant subsidiaries				
KTL Uranium Limited		Australia	100%	100%
KTL Technologies HK Limited*		HKSAR	-	100%
Jilin Australia Energy Technology Company Limited		China	100%	100%
Jilin Huisheng Strong Magnet Company Limited *	7,8	China	-	65%
Beijing Beililong Magnet Material Technology Co. Ltd. *	7,8	China	-	33%

*On 24 December 2008 the Group disposed its entire Magnet Material segment (JHSM and BBMMT) and KTL Technologies Hong Kong Limited by in specie distribution. These companies were not discontinued operations or classified as held for sale as at 31 December 2007 and the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to dispose these companies late in 2008 due to the strategic decision to solely focus on its mineral business,

The Company has no investments in associates and no jointly controlled entities.

NOTE 28 – SHARE CAPITAL

	Parent Entity 2008 Shares	Parent Entity 2007 Shares	Parent Entity 2008 \$	Parent Entity 2007 \$
Authorised: Ordinary shares – no par value				
Issued: Ordinary shares – no par value				
Issued shares				
Reconciliation of movement during year				
Opening balance	386,828,228	264,860,047	6,330,213	2,393,667
Share issue – 22 May 2007		25,000,000		750,000
Share issue – 25 September 2007		95,756,060		3,159,950
Share issue – 28 September 2007		1,212,121		40,000
Costs of share capital	-	-		(13,404)
Share issue – 7 May 2008	50,000,000		1,250,000	-
Share issue – 20 November 2008	3,500,000		53,850	-
Costs of share capital			(9,100)	-
Closing balance	440,328,228	386,828,228	7,624,963	6,330,213

NOTE 29 – OPTION RESERVE

	Parent Entity 2008 Options	Parent Entity 2007 Options	Parent Entity 2008 \$	Parent Entity 2007 \$
Total Options	107,000,000	110,500,000	408,804	427,654
Reconciliation of movement during year				
Opening balance	110,500,000	18,500,000	427,654	427,654
Option issue – 1 May 2006	-	10,000,000	-	-
Option issue – 29 September 2006	-	12,000,000	-	-
Option issue – 28 July 2006	-	40,000,000	-	-
Option issue – 9 October 2006	-	5,000,000	-	-
Option issue – 15 November 2006	-	25,000,000	-	-
Option exercise – 20 November 2008	(3,500,000)		(18,850)	-
Closing balance	107,000,000	110,500,000	408,804	427,654

NOTE 30 – SIGNIFICANT AFTER BALANCE DATE EVENTS

There are currently no matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

NOTE 31 – AUDITORS' REMUNERATION

For the year ended 31 December 2008

	Consolidated		Parent	
	2008 \$	2007 \$	2008 \$	2007 \$
Audit Services				
Auditor of the Company				
PKF Perth:				
Audit and review of financial reports	53,159	39,723	53,159	39,723
	53,159	39,723	53,159	39,723
Other auditors				
Audit and review of financial reports	17,326	1,216	-	-
	70,485	40,939	53,159	39,723
Other services				
Auditor of the Company	-	-	-	-
PKF Perth:	-	-	-	-
Other assurance services	-	-	-	-
Taxation services	7,820	-	7,820	-
PKF Perth related practices	-	-	-	-
Due diligence services	-	-	-	-

Directors' Declaration

The directors of the company declare that:

the financial statements and notes, as set out on pages 18 to 52 are in accordance with the Corporations Act 2001:

1. comply with Accounting Standards and the Corporations Regulations 2001; and
2. give a true and fair view of the financial position as at 31 December 2008 and of the performance for the year ended on that date of the Company;
3. comply with International Financial Reporting Standards as disclosed in Note 2; and
3. the Chief Executive Officer and Chief Financial Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.

In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Dayong Hu
Chairman

25 March 2009

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS
OF KTL TECHNOLOGIES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS
OF KTL TECHNOLOGIES LIMITED

Auditor's Independence Declaration

ADDITIONAL INFORMATION PURSUANT TO LISTING RULE 4.10

A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period is contained within the Director's Report.

B. SHAREHOLDING

1. Substantial shareholders

As at 17 March 2009, the names of the substantial shareholders in the Company, the number of equity securities to which each substantial shareholder and substantial holder's associates have a relevant interest, as disclosed in substantial holding notices given to the Company are:

Name	No of Ordinary Shares	%
Ever Blooming International Group (Hong Kong) Limited	57,000,000	12.94
Lion Liaison Limited	56,562,477	12.85
Mr John Fletcher, FF Financial Services Limited, Cleveland Investment Global Limited and Asian Cleveland Limited	40,512,977	9.20
Bright Mass Investments Ltd	33,000,000	7.49
Madam Cheng Weiwen	27,000,000	6.13
Ms Chen Ying	25,000,000	5.68

2. Number of holders of each class of equity securities and the voting rights attached

There are 565 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are 6 holders of unlisted options. There are no voting rights attached to these options.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

3. Distribution schedule of the number of holders in each class of equity security as at 17 March 2009

By Class	Holders of Ordinary Shares	No of Ordinary Shares	%	Holders of Options	No of Options	%
1 – 1,000	84	44,037	0.01	-	-	-
1,001 - 5,000	127	295,049	0.07	-	-	-
5,001 - 10,000	55	375,083	0.09	-	-	-
10,001 - 100,000	186	7,669,667	1.74	5	530,000	0.54
100,001- and over	113	431,944,392	98.10	47	79,570,000	99.46
Totals	565	440,328,228	100.00	52	80,000,000	100.00

4. Marketable Parcel

The number of shareholders with less than marketable parcels is 472.

The number of option holders with less than marketable parcels is 35.

5. Twenty largest holders of each class of quoted equity security

The names of the twenty largest holders of each class of quoted equity security, the number of equity security each holds and the percentage of capital each holds (as at 17 March 2007) is as follows:

Ordinary Shares

		No. of ordinary shares	%
1	Ever Blooming International Group (Hong Kong) Limited	57,000,000	12.94
2	Lion Liaison Limited	56,562,477	12.85
3	Mr John Fletcher, FF Financial Services Limited, Cleveland Investment Global Limited and Asian Cleveland Limited	40,512,977	9.20
4	Bright Mass Investments Ltd	33,000,000	7.49
5	Madam Weiwen Cheng	27,000,000	6.13
6	Ms Ying Chen	25,000,000	5.68
7	Lili Cheng	20,000,000	4.54
8	Jun Wang	18,834,529	4.28
9	Xiaozhou Li	11,600,000	2.63
10	Mr Guansheng Gao	10,000,000	2.27
11	Junhua Zhang	10,000,000	2.27
12	Yue Huang	9,500,000	2.16
13	Mr Russell King Byfield & Strategy Central Holdings Pty	7,800,000	1.77
14	Yaofu Xiao	7,100,000	1.61
15	Jun Li	7,000,000	1.59
16	Citicorp Nominees Pty Limited	5,798,258	1.32
17	Kpmg Corporate Finance (Aust)	5,771,000	1.31
18	Mis Li Lei	5,000,000	1.14
19	Redport Limited	5,000,000	1.14
20	Chunming Wang	4,700,000	1.07
	Total	367,179,241	83.38

Listed Options

		No. of ordinary shares	%
1	Citicorp Nominees Pty Limited	50,220,334	62.78
2	Mr Kenneth John Weston	3,100,000	3.88
3	Mr Gunay Bagatur	2,695,833	3.37
4	Mr Yim Ming Wong & Ms Man Wai Lai	2,608,000	3.26
5	Mrs Qi Shi Bao	2,292,436	2.87
6	Simdilex Pty Limited	1,600,000	2.00
7	Asian Cleveland Limited	1,250,000	1.56
8	Mr Malachi Thomas Seymour	1,225,000	1.53
9	Coltrange Pty Limited	800,000	1.00
10	Mr Peter Andrew Duffield	800,000	1.00
11	M & K Korkidas Pty Limited	570,000	0.71
12	Mrs Clare Anne Beguely	557,000	0.70
13	ANZ Nominees Limited	550,000	0.69
14	Mr Erminio Rinna	500,000	0.63
15	Mr Xue Wen Su	500,000	0.63
16	Mr Adam Michael Bolton	400,000	0.50
17	Mr Alan David Bolton	400,000	0.50
18	Mr David Joseph Bolton	400,000	0.50
19	Mrs Joanne Elizabeth Bolton	400,000	0.50
20	Ms Nicole Elizabeth Bolton	400,000	0.50
	Total	71,268,603	89.09

C. OTHER DETAILS

1. Stock exchange on which the Company's securities are quoted

The Company's listed equity securities are quoted on the Australian Stock Exchange.

2. Restricted Securities

There are no restricted securities.

3. Unquoted equity securities

The Company has four classes of unquoted equity securities held as follows:

Unlisted options expiring 4 March 2010 at 1.25 cents	
Holder	Number
Asian Cleveland Limited	1,000,000
Madam Cheng Weiwen	1,000,000
Mr Hu Dayong	1,000,000
Mr Cheng Qingquan	1,000,000
Strategy Central holdings Pty Limited	1,000,000
Mr Barry Woodhouse & Mrs Danielle	1,000,000
Total	6,000,000
Unlisted options expiring 29 July 2010 at 1.25 cents	
Asian Cleveland Limited	3,000,000
Strategy Central holdings Pty Limited	3,000,000
Mr Barry Woodhouse & Mrs Danielle	3,000,000
Total	9,000,000
Unlisted options expiring 29 May 2011 at 5.00 cents	
Asian Cleveland Limited	2,000,000
Madam Cheng Weiwen	2,000,000
Mr Hu Dayong	2,000,000
Mr Cheng Qingquan	2,000,000
Strategy Central holdings Pty Limited	2,000,000
Mr Barry Woodhouse & Mrs Danielle	2,000,000
Total	12,000,000

4. Review of Operations

A review of operations is contained in the Review of Operations report in the Director's Report.

5. On market buy-back

There is currently no on-market buy-back.

6. Consistency with business objectives

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of re-listing in a way consistent with its stated business objectives .