Asia Zirconium Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report 2003

CONTENTS

CORPORATE PROFILE

Asia Zirconium Limited (the "Company" or "Asia Zirconium", together with its subsidiaries the "Group"), the largest zirconium chemicals manufacturer and exporter in the PRC, is the only listed company in Asia specialising in the manufacture and sale of a wide range of zirconium rare metal chemicals, which include zirconium oxychloride, zirconium carbonate, zirconium oxides and other zirconium chemicals as well as new energy materials including nickel hydroxide, hydrogen-storage alloy powder, and electronic ceramic products, such as PTC heating components and zirconium tiles. The Group was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2002.

The Group started its operations in 1977 and is based in Yixing, Jiangsu Province, the PRC. The Group has successfully transformed from a small scale zirconium chemicals plant to an internationally renowned zirconium chemicals manufacturer with a sizable current annual production capacity of over 30,000 tonnes of zirconium oxychloride, over 6,000 tonnes of zirconium carbonate, over 2,000 tonnes of zirconium oxides and 2,500 tonnes of other zirconium chemicals, over 1,500 tonnes of electrode chemicals materials for NiMH, NiCd and Li-ion batteries, and 25 million pieces of PTC heating components.

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

The Group's new energy materials products include electrode materials for re-chargeable NiMH, NiCd and Li-ion batteries, the production of which commenced in September of 2003, such products are widely used by leading domestic and overseas battery manufacturers, say, Matsushita Electric Industrial Co., Ltd (Panasonic).

The sales of electronic ceramic products commenced in June 2003. Electronic ceramic products are widely used by manufacturers as substitutes of heat wires for air conditioners, fan heaters, sterilizing cabinets, hair dryers and magnetic materials.

The Group's products, with "Long Jing" as the registered trademark in the PRC, Japan, the US & Hong Kong, have long been well-received by the international market. Products have been exported to Japan, the US & Europe for 25 years, 13 years and 14 years respectively. The Group was also accredited by the Nonferrous Metal Society of China as the largest zirconium chemicals exporter in the PRC in 2001.

The Group employs cutting edge technologies and sophisticated equipment for scientific research and production. In 2003, the Group introduced a number of advanced testing and analysis machines from the US to assure product quality. At present, the Group is the only zirconium chemicals manufacturer in the PRC which has awarded both the ISO14001 Environmental Management System Certification and the ISO9002 Quality System Certification.

In March 2003, the Group was also accredited as a state key high-tech enterprise. In addition, a number of the Group's products were appraised as high-tech products at state and provincial levels, among which the nanometric zirconium oxide and cerium zirconium compound were rated as Grand New Products by the state and were classified as "China Torch Programme" items.

In the future, the Group will forge ahead even faster and more efficiently for a brighter future.

FINANCIAL SUMMARY

	1999 *RMB'000*	2000 *RMB'000*	2001 *RMB'000*	2002 *RMB'000*	2003 *RMB'000*
Turnover	73,971	166,093	229,263	267,310	**299,720**
Gross profit margin (%)	36%	36%	36%	37%	**33%**
Profit attributable to shareholders	13,167	25,615	55,377	72,512	**66,291**
EBIT	20,692	40,654	56,761	73,052	**76,513**
EBITA	23,796	43,757	60,138	77,224	**82,324**
Dividends — ordinary shares	3,000	10,000	22,000	19,740	**19,800**
Earnings per share — basic (RMB)	0.044	0.085	0.185	0.228	**0.166**
Earnings per share — diluted (RMB)	n/a	n/a	n/a	0.228	**0.166**
Debt-equity ratio	0.147	0.011	net cash position	net cash position	**net cash position**
Dividends payout ratio (%)	23%	39%	40%	27%	**30%**
Ordinary shares (shares)	300,000,000	300,000,000	300,000,000	317,808,219	**400,000,000**
Cash and bank balance	12,523	53,178	85,072	172,988	**139,665**
Cash per share (RMB)	0.04	0.18	0.28	0.54	**0.35**
Total assets	88,091	140,271	205,056	283,936	**338,224**
Net asset value (Total assets less current liabilities)	10,167	46,533	79,910	217,701	**271,094**
Net asset value per share (RMB)	0.03	0.16	0.27	0.69	**0.68**
Inventory turnover days	183 days	47 days	40 days	34 days	**30 days**
Debtors turnover days	30 days	36 days	50 days	30 days	**32 days**
Creditors turnover days	117 days	29 days	32 days	19 days	**16 days**

CHAIRMAN'S STATEMENT

To shareholders,

On behalf of the board of directors (the "Board") of Asia Zirconium Limited, I am pleased to present the results of the Group for the year ended 31 December 2003.

Asia Zirconium has dedicated tremendous effort on research and development ("R&D"), production process streamlining and market expansion strategic plannings. With its competitive advantages in R&D, flexible production process, stringent quality and cost control, the Group has established a leading position in the industry. Despite the continual decrease in the prices of zirconium chemicals in the international market, the Group achieved satisfactory results through rigorous management, product mix enhancement, production scale expansion, active development of new rare metal chemicals products, including new energy materials and electronic ceramics, and diversification into higher margin downstream deep-processed products.

During the year under review, the Group continued its pragmatic approach and successfully extended its coverage in both domestic and overseas markets and expanded its product range to achieve further growth in revenue. As at 31 December 2003, the Group's turnover and profit before taxation amounted to approximately RMB300 million and RMB77 million respectively, representing an increase of 12% and 6% respectively as compared to the same period last year. Earnings per share in 2003 was approximately RMB16.6 cents (2002: RMB22.8 cents). This decrease was primarily due to the expiration of the two-year preferential enterprise income tax free grace period for the plants and the increased number of shares from 318 million to 400 million after listing on the mainboard of the Stock Exchange.

The Board recommended the payment of a final dividend of HK3.7 cents per ordinary share for the year ended 31 December 2003 (2002: HK3 cents per ordinary share).

MARKET REVIEW FROM A MACRO PERSPECTIVE

During the year under review, challenges and opportunities co-existed in the international zirconium chemicals market. The outbreak of SARS epidemic during the first half of the year dampened sentiments in the Asia Pacific Region.

However, the Group managed to keep up with the market pulse by implementing a series of initiatives. With its R&D commitments, pricing strategies, increased investment and resources, the Group further tapped into the US and Europe markets with its prime quality products. As at 31 December 2003, sales to these two markets accounted for 46% of total turnover of the Group.

In the domestic market, along with the liberalization of the PRC market, zirconium chemicals manufacturers entered into a new era in terms of the unprecedented pace of product mix enhancement, technology contents and new products development. In addition, the PRC renders the most favorable investment environment in the world. It has not only attracted foreign investments but also prompted the development of Chinese privatized enterprises. China is now recognised as a world factory. The Group has seized the opportunity of China being the world factory to increase its domestic shares and market presence.

MARKET REVIEW FROM A MACRO PERSPECTIVE *(Cont'd)*

With discoveries in new applications and usage of zirconium chemicals, certain conventional chemicals such as chromium sulphate and lead chemicals are being replaced by new substitutes. In addition, the increasing number of mobile phone users, coupled with the growing popularity of electronic products such as personal computers and digital cameras, have prompted both domestic and overseas manufacturers to ride on the wave of economic recovery, and hence stimulating a huge demand for rare metal chemical products such as zirconium chemicals, new energy materials and electronic ceramics products.

BUSINESS REVIEW

During the year under review, the Group utilized proceeds raised from the IPO to increase its production capacity and to develop downstream business to satisfy the increasing demand from domestic and overseas markets.

As prices of zirconium products dropped in 2003, and the two-year preferential enterprise income tax free grace period for the Group's plants expired in 2003, the Group's enterprise income tax obligation increased to approximately RMB10 million at a tax rate of approximately 12% for the year, affecting the Group to a certain extent. Thanks to its close relationship with suppliers, the Group was offered certain raw materials price discounts and managed to maintain its profit margin range by improving its production process, producing its own feedstock during the year and accomplishing product mix change with diversification so as to maintain stable profit margin.

In June of 2003, the Group successfully extended to the production of electronic ceramic products, bringing the Group's developments towards a new opportunity. Electronic ceramic products include PTC chips, heating groupware, zirconium ceramic boards and zirconium ceramic components. They are characterized by high heat-conduction, pressure tolerance and long durability, safe and enviromentally friendly. They are widely used in air-conditioners and train coolers with huge market demand. The products were put to sale in June 2003 and recorded a revenue of approximately RMB0.76 million.

In September 2003, the Group commenced the development of new energy materials such as hydrogen-storage alloy powder and nickel hydroxide. As at 31 December 2003, the sale of new energy materials had brought RMB9 million of turnover for the Group, representing 3% of the total turnover. The Group expects tremendous growth in the batteries market and that new energy materials will bring the Group's developments towards a new peak.

Capacity expansion and the new products development in the second half of 2003 will be fully extended in 2004 and will render the Group to have a broader revenue base for future years.

FUTURE OUTLOOK

Looking into the future, the Group is optimistic of the future prospects of zirconium chemicals. With the continuous discoveries of zirconium chemicals usage and substitutions of other chemical products, the use of zirconium chemicals will be more extensive than ever, encompassing more diversified scopes and larger markets than ever before. Our commitment to the development of zirconium downstream products and the deep-processing business will reward the Group's shareholders with satisfactory returns.

The new energy material chemical products developed by the Group in 2003 will play a greater role in 2004. On the basis of perfecting and producing more energy materials, the Group will consider extension to NiMH, NiCd and Li-ion batteries. The market share of the newly developed electronic ceramic products, PTC for example, will also increase.

In the foreseeable future, the Group's major business growth driver will be the new energy materials and zirconium chemicals downstream products. The Group is well positioned and has great confidence in capturing larger shares in various markets and bringing the Group's development to new height.

Lastly, the Company would like to take this opportunity to thank all Board members, our senior management team and staff for their dedication during 2003. The Company would also like to express our sincere gratitude to all of its customers, shareholders, investors, long-term suppliers and business partners for their continued trust, support and services to the Group.

Yang Xin Min
Chairman

30 March 2004

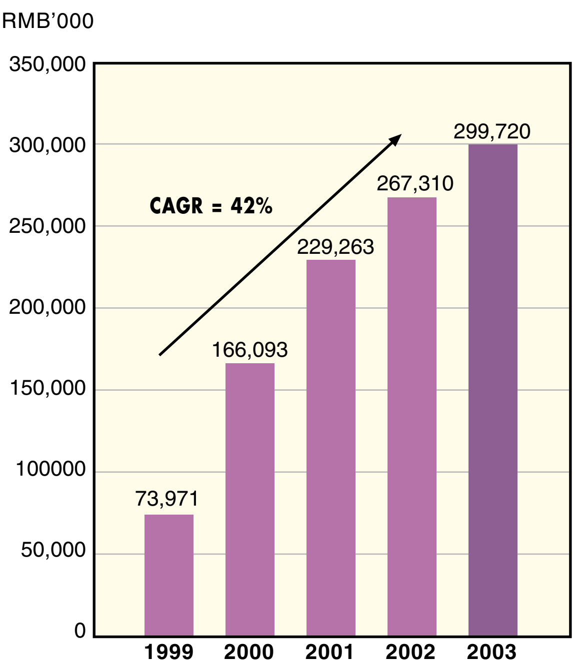
MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

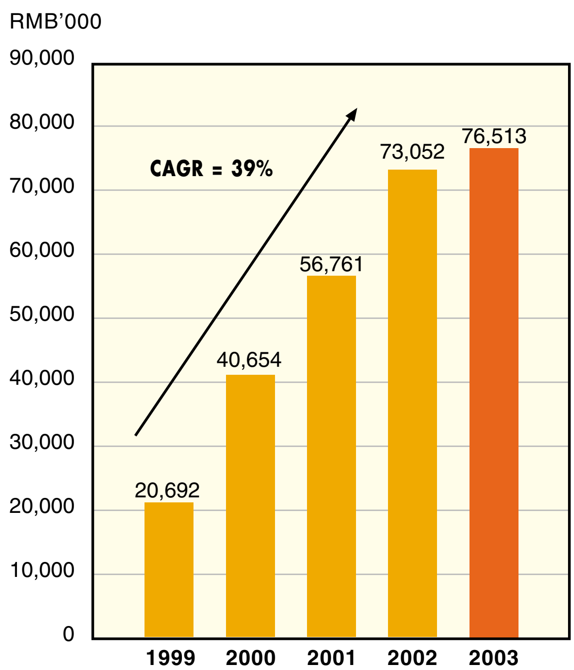
The Group's turnover and net profit continued to record satisfactory growth, though the operating environment in year 2003 was characterized by declining zirconium chemical prices. Consolidated turnover of the Group for the year ended 31 December 2003 amounted to approximately RMB300 million, representing a year-on-year growth of 12%, and profit before tax amounted to approximately RMB77 million, a growth of 6% as compared to the previous year.

For the period from 1999 to 2003, the Group achieved an impressive compound annual growth rate (CAGR) of 42% in turnover and 39% in earnings before interest and tax (EBIT). Such sustainable increase is mainly attributable to the accreditation of "Qualification Certification for Wastewater Treatment Facilities in Taihu Lake Basin in Jiangsu Province" granted to the Group in 1998. Having achieved such environmental protection requirements at the state level, the Group leveraged on the opportunity to carry out mass production of zirconium chemicals, so as to enjoy continual growth over the years and benefit from the economies of scale.

Turnover (1999-2003)



EBIT(1999-2003)



TURNOVER ANALYSIS

The Group is a leading rare metal chemical products manufacturer with turnover primarily from zirconium chemicals. For the year ended 31 December 2003, the manufacture and sale of zirconium chemicals accounted for 97% of the Group's total turnover. As a result of product mix enhancement, turnover of zirconium oxychloride, a low end zirconium chemical product, declined from 44% in 2002 to 39% in 2003, while zirconium oxides increased from 25% in 2002 to 28% in 2003. We believe that by enhancing our product structure, the profitability of the Group will be enhanced in the long run.

TURNOVER ANALYSIS *(Cont'd)*

The Board is pleased to see that in addition to its strong foothold in the zirconium chemicals market, the Group has gradually moved forward to another rare metal chemical products, and opened up new revenue streams in new energy materials and ceramics, forming a strengthened and more diversified revenue base that is beneficial to the Group's long-term development. The two businesses, which commenced in June and September 2003 respectively, accounted for approximately 3% of the Group's total turnover, and are expected to have a fuller impact on the Group in 2004.

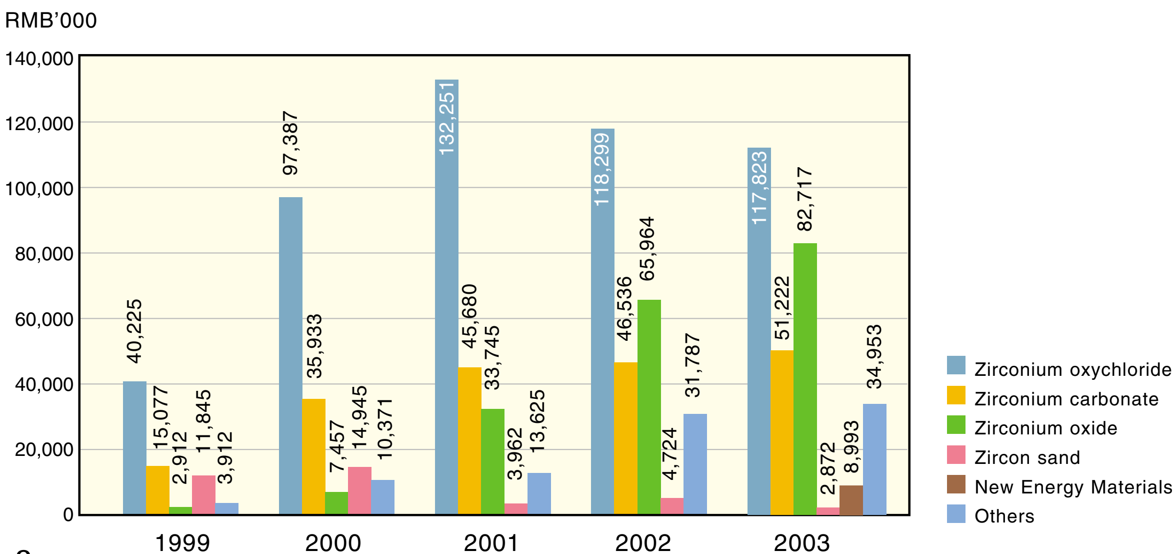
TURNOVER ANALYSIS BY PRODUCT CATEGORY

The following table presents the Group's turnover analysis by product category for the five years ended 31 December 2003:

	1999		2000		2001		2002		**2003**	
Product Sales	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	***RMB'000***	%
Segment 1: Zirconium Chemicals										
Zirconium oxychloride	40,225	55	97,387	59	132,251	57	118,299	44	**117,823**	**39**
Zirconium carbonate	15,077	20	35,933	22	45,680	20	46,536	17	**51,222**	**17**
Zirconium oxides	2,912	4	7,457	4	33,745	15	65,964	25	**82,717**	**28**
Zircon sand	11,845	16	14,945	9	3,962	2	4,724	2	**2,872**	**1**
Others *(Note 1)*	3,912	5	10,371	6	13,625	6	31,787	12	**34,953**	**12**
	73,971	100	166,093	100	229,263	100	267,310	**100**	**289,587**	**97**
Segment 2: Electronic Ceramic	—	—	—	—	—	—	—	—	**764**	**0**
Segment 3: New Energy Materials	—	—	—	—	—	—	—	—	**8,993**	**3**
Segment 4: Trading	—	—	—	—	—	—	—	—	**376**	**0**
	73,971	100	166,093	100	229,263	100	267,310	100	**299,720**	**100**

Note 1: Including potassium zirconium hexafluoride, zirconium sulphate, zirconium acetate, zirconium silicate and ammonium zirconium hexafluoride.

Turnover Analysis by Product Category

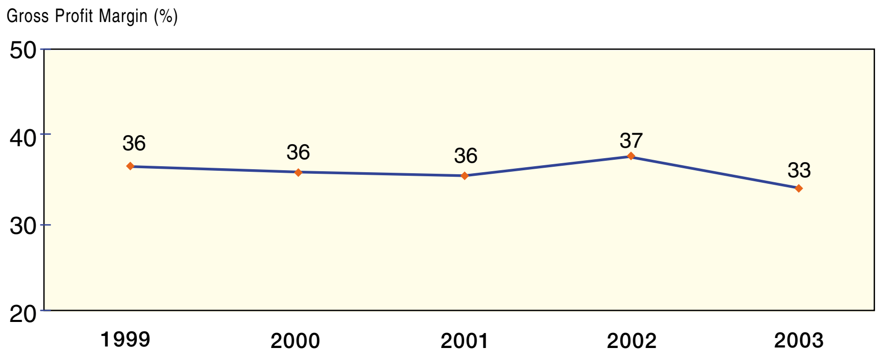


Management Discussion and Analysis (cont'd)

GROSS PROFIT MARGIN

The Group's zirconium chemicals recorded an increase in sales from approximately RMB267 million in 2002 to approximately RMB290 million in 2003, representing an increase of approximately 8%. The Group's gross margin slightly dropped from 37% in 2002 to 33% in 2003, which was attributable to price competition.

Gross Profit Margin (1999-2003)



TURNOVER ANALYSIS BY GEOGRAPHICAL REGION

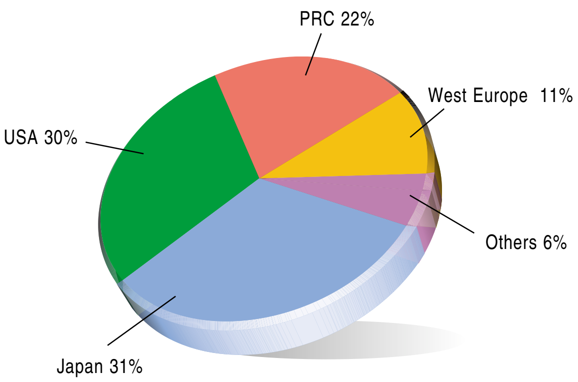
The following table presents the turnover analysis by geographical region for the five years ended 31 December 2003 and their respective percentages in total turnover:

	1999		2000		2001		2002		2003	
Regions	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	***RMB'000***	**%**
Japan	20,290	27	67,201	41	82,848	36	83,153	31	**60,281**	**20**
USA	15,856	21	34,641	21	39,653	17	81,024	30	**79,084**	**26**
PRC	33,763	46	52,241	32	33,371	15	58,906	22	**107,144**	**36**
West Europe *(Note 2)*	2,665	4	6,014	3	42,908	19	28,961	11	**44,919**	**15**
Others *(Note 3)*	1,397	2	5,996	3	30,483	13	15,266	6	**8,292**	**3**
	73,971	100	166,093	100	229,263	100	267,310	100	**299,720**	**100**

Note 2: Including the UK, the Netherlands and Germany, etc.

Note 3: Including Korea, India, Austria, Lithuania, South Africa, Columbia, Brazil, Turkey, New Zealand and Italy, etc.

Turnover Analysis by Geographical Region



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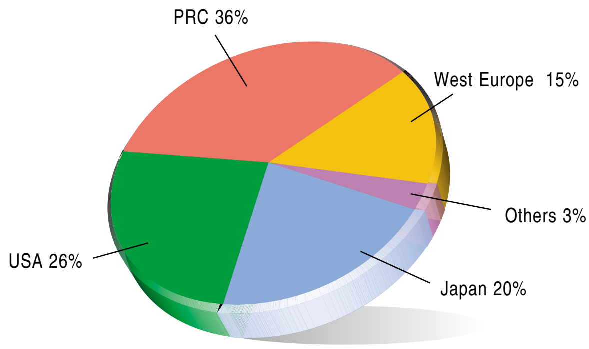


2003

CAPITAL EXPENDITURES

The capital expenditures of the Group for the five years ended 31 December 2003 are as follows:

	1999	2000	2001	2002	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Capital expenditure	2,299	5,105	4,536	12,751	75,410

For the year ended 31 December 2003, the Group's capital expenditure was approximately RMB75,410,000, which was mainly attributable to the utilization of IPO proceeds for its capacity expansion. The expansion was completed at the end of year 2003. Full year production will be commenced in 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group's bank and cash balances, including pledged deposits, were approximately RMB139,665,000 (2002: RMB172,988,000). The Group had no long term liabilities as at 31 December 2003 and 2002.

CONTINGENT LIABILITIES

As at 31 December 2003, the Group had no contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2003, the Group pledged a bank deposit of RMB125,000 (2002: RMB453,000) as securities for trade financing facilities granted by banks.

As at 31 December 2003, the Group had banking facilities including bank overdraft of HK$1,000,000 and a corporate credit card of HK$300,000. The facilities are secured by the certificate of deposit amounted to HK$1,000,000 which carried at fixed rate of 1.8% per annum and with a maturity of two years. The certificate of deposit will mature in November 2004.

EMPLOYEES

For the year ended 31 December 2003, the Group had approximately 517 employees (2002: 444 employees). In 2003, the aggregate employee remuneration (including directors' fees) was approximately RMB14,774,000 (2002: RMB19,379,000). The Group offers competitive salary packages to its employees. Additional incentive bonus based on individual staff performance is also offered in accordance with the Group's overall remuneration and bonus systems.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture and sale of a wide range of zirconium chemicals.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 23.

The Board has recommended the payment of a final dividend of HK3.7 cents per ordinary share for year 2003.

In the event that the resolution on the proposed payment of the final dividend for ordinary share is passed at the annual general meeting to be held on 18 May 2004, such dividend will be paid on 27 May 2004 to shareholders whose names appear in the register of members of the Company on 18 May 2004.

The register of members of the Company will be closed from 14 May 2004 to 18 May 2004, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend and to attend and vote at the Company's annual general meeting to be held on 18 May 2004, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on 13 May 2004.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year 2003 are set out in note 13 to the financial statements.

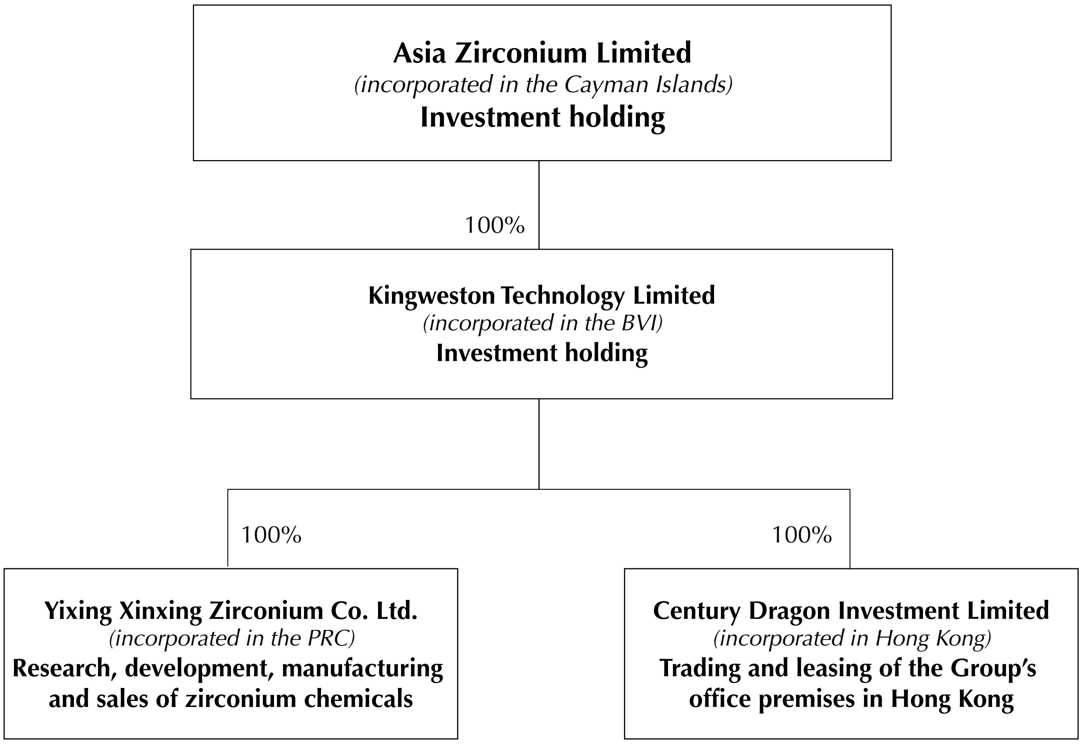
SHARE CAPITAL

Details of movements in the share capital of the Company during the year 2003 are set out in note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year 2003 are set out in consolidated statement of changes in equity on pages 26 to 27.

GROUP STRUCTURE



DIRECTORS

The Directors at the date of this report are shown below. Their biographies are set out on pages 18 to 19.

Name	Position	Term of office
Yang Xin Min	Chairman, Managing Director	Since 17 September 2000
Yang Zhen	Executive Director	Since 17 September 2000 (resigned on 15 April 2003)
Huang Yue Qin	Executive Director	Since 17 September 2000
Zhou Quan	Executive Director	Since 1 April 2003
Guo Lu Cun	Executive Director	Since 1 January 2002 (resigned on 1 January 2004)
Li Fu Ping	Executive Director	(Appointed on 9 January 2004)
Sik Siu Kwan	Non-executive Director	Since 2 March 2002 (resigned on 17 March 2003)
Cheng Faat Ting	Independent Non-executive Director	Since 16 November 2001
Guo Jing Mao	Independent Non-executive Director	Since 26 October 2000

Each of the above Directors has entered into a service contract with the Company for an initial term of three years. Each service contract will continue thereafter unless terminated by either party thereto giving to the other at least three months' notice in writing.

DIRECTORS' INTERESTS IN SECURITIES

As at the date of this report, the interests of the Directors and chief executive of the Company in the equity or debt securities and underlying Shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Nature of interest	Number of Shares	Issued share capital of the Company %
Yang Xin Min	Beneficial	Personal	320,970,946 Shares	63.92

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at the date of this report, so far as was known to the Directors and the chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

Name of Shareholder	Number of Shares	Issued share capital of the Company %
Yang Xin Min	320,970,946 Shares	63.92
Value Partners Limited	47,000,000 Shares	9.36

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors had any interest, either direct or indirect, in any business, which may compete or constitute a competition with the business of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors of the Company had a material interest, either direct or indirect, in any significant contract to which the Company or its holding companies or any of its subsidiaries was a party at the year end of or during the year 2003.

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

SHARE OPTIONS GRANTED PURSUANT TO THE SHARE OPTION SCHEME

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the "Scheme") was approved and adopted and, the Board may, at its discretion, grant options (the "Options") to any Director (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid) (the "Eligible Persons"). The Scheme will expire on 23 September 2012.

As at 31 December 2003, Options to subscribe for a total of 2,000,000 shares of the Company have been granted pursuant to the Scheme, representing 0.5% of the Company's shares in issue as at the date of grant. No Options have been exercised during the year.

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

				Number of share options			
Name of Employee	Date of Grant	Exercise Period	Subscription Price per Share	Outstanding as at 31 December 2003	Granted during the Year	Exercised during the Year	Outstanding as at 30 March 2004
Wong Hoi Yan, Audrey	1 November 2002	1 May 2003 to 30 April 2008 *(Note 4)*	HK$0.87	2,000,000	2,000,000	—	2,000,000

Note 4: The Options will vest in five tranches in the grantee at a 20%: 20%: 20%: 20%: 20% ratio. The first tranche of the Options will vest in the grantee on 1 May 2003. The second, third, fourth and fifth tranches will vest in the grantee on 1 May 2004, 1 May 2005, 1 May 2006 and 1 May, 2007 respectively.

CONNECTED TRANSACTIONS

The following connected transactions have been carried out by the Group during year 2003:

Trademark

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

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

CONNECTED TRANSACTIONS *(Cont'd)*

Supply of power and steam

Xinxing Chemicals Group (as supplier) and Yixing Zirconium (as purchaser) have entered into the supply agreement dated 1 September 2000 and the two supplemental agreements thereto dated 16 September 2000 and 21 March 2002, respectively ("the Agreements"), pursuant to which Xinxing Chemicals Group agreed, inter alia, to provide electricity and steam (which is owned by Xinxing Chemicals Group) to Yixing Zirconium for the normal operation of Yixing Zirconium's production facilities for a term of 15 years commencing from 1st January 2001 to 31st December 2015. The directors expect that the power and steam annual expenses will not exceed 10% of the Group's total turnover in each financial year. The transactions contemplated under the Agreements constitute ongoing connected transactions pursuant to the Listing Rules upon the listing of the shares of the Company on the Stock Exchange.

Save as disclosed above, no other transactions were required to be disclosed as connected transactions pursuant to the Listing Rules. No Directors, directly or indirectly, had any material interests in any significant contracts entered into between the Company, the ultimate holding company or any subsidiaries of the ultimate holding company during the year.

Upon the listing of the shares of the Company on the Stock Exchange, the transactions contemplated under the Agreements constitute ongoing connected transactions of the Company pursuant to the Listing Rules. The Company has applied for a waiver from strict compliance of the transactions contemplated under the Agreements with the related provisions of the Listing Rules for the three years ended 31 December 2004, on the basis that the Company undertakes to strictly abide by the following terms and conditions, and the waiver has been granted by the Stock Exchange.

The Company's independent non-executive directors and auditors have reviewed the ongoing connected transactions as set out above and confirm that:

- the transactions have been entered into in the ordinary and usual course of the business of the Group;
- the transactions have been conducted on normal commercial terms and agree after arm's length negotiations, and in accordance with the terms of the relevant Agreements or on terms no less favourable than terms available to independent third parties;
- the transactions have been conducted in accordance with the relevant agreements on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interest of the Company as a whole; and
- the transactions entered into during the year do not exceed, in aggregate, 10% of the Company's aggregate turnover in year 2003.

The power and steam generating plant has been acquired by the Company and this connected transaction was ceased on the approval of such acquisition at the extraordinary general meeting held on 29 March 2004.

USE OF PROCEEDS

As stated in the prospectus of the Company dated 17 October 2002, the proceeds would be used for the expansion of production lines. Such lines were in operation accordingly at the end of 2003.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 18% and 58% of the Group's total turnover for the year respectively; and the aggregate purchases from the largest and the five largest suppliers of the Group accounted for approximately 37% and 75% of the Group's total purchases in the corresponding year respectively.

As far as the directors are aware, none of the directors of the Company, their respective associates (as defined in the Listing Rules), and the existing shareholders of the Company who own more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during the year 2003.

RESPONSIBILITY OF DIRECTORS ON FINANCIAL STATEMENTS

The Companies Ordinance requires the Directors to prepare financial statements for each financial year. Such financial statements should give a true and fair view of the state of affairs of the Company and of the Group as at the balance sheet date of a particular year and on the profit and loss of the Company and the Group for the year then ended. In preparing the financial statements, the Directors should:

(a) select and apply consistently appropriate accounting policies, make prudent, fair and reasonable judgement and estimation;

(b) report the reasons for any seriously deviation from accounting practice; and

(c) prepare the financial statements on going concern basis, unless it is inappropriate to assume the Company and the Group could continue to operate;

The Directors are responsible for the proper keeping of accounting record in order to secure assets of the Company and the Group. The Directors are also responsible for adopting reasonable measures to prevent and check any fraudulences and irregularities.

CORPORATE GOVERNANCE

Code of Best Practice

The Code of Best Practice as set out in Appendix 14 of the Listing Rules has been complied with by the Company throughout the year 2003.

Audit Committee

The Company set up an Audit Committee on 24 September 2002 with its written terms of reference being in compliance with Rules set out in "A Guide for the Formation of An Audit Committee" issued by Hong Kong Society of Accountants.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee comprises two independent non-executive directors, namely Mr. Gary Cheng Faat Ting and Mr. Guo Jing Mao, with Mr. Gary Cheng Faat Ting being Chairman of the Audit Committee.

CORPORATE GOVERNANCE *(Cont'd)*

Donations

For the year ended 31 December 2003, the Group did not make any donations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year 2003.

PRE-EMPTIVE RIGHTS

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

POST BALANCE SHEET DATE EVENT

The following events took place subsequent to 31 December 2003:

(i) Pursuant to a placing agreement dated 3 February 2004 entered into between Mr. Yang Xin Min ("Mr. Yang"), a substantial shareholder of the Company, and a placing agent, 47,000,000 existing ordinary shares of HK$0.1 each in the Company were placed to independent investors at a price of HK$1.17 per share. Upon completion of the placement of shares and pursuant to a subscription agreement entered into between the Company and Mr. Yang, Mr. Yang subscribed for 47,000,000 new ordinary shares of HK$0.1 each in the Company at a price of HK$1.17 per share. The net proceeds of the subscription were intended to be used as general working capital for the Group.

(ii) On 13 February 2004, Yixing Zirconium, a wholly-owned subsidiary of the Group, entered into an acquisition agreement (the "Agreement") with Jiangsu Xinxing Chemicals Group Corporation ("Xinxing Chemicals Group"), a private-owned enterprise wholly owned by Mr. Yang Xin Min, a substantial shareholder and director of the Company. Pursuant to the Agreement, Yixing Zirconium has agreed to acquire the electricity and steam generating plant and related facilities from Xinxing Chemicals Group at the consideration of approximately RMB77,880,000, which will be satisfied by the issue of the 55,170,946 ordinary shares of the Company to Mr. Yang Xin Min. The directors believe that the acquisition will reduce production cost, ensure stable and continuous electricity and steam supply, thus enhancing the Group's earning capacity in the long run. Details of the acquisition contemplated under the Agreement are set out in the Group's press announcement dated 17 February 2004.

AUDITORS

A resolution for the re-appointment of RSM Nelson Wheeler as the Company's auditors for 2004 is to be proposed at the forth coming annual general meeting.

By order of the Board
Huang Yue Qin
Executive Director

30 March 2004

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Group photo of the Directors
(from left: Ms. Huang Yue Qin, Executive Director
Mr. Zhou Quan, Executive Director
Mr. Yang Xin Min, Chairman
Mr. Li Fu Ping, Executive Director)

EXECUTIVE DIRECTORS

Mr. Yang Xin Min (楊新民), aged 54, is the founding Chairman, Managing Director and controlling shareholder of the Company. Mr. Yang graduated from the Beijing Economics Correspondence College. Since August 1977, Mr. Yang has been the General Manager of all predecessor entities of the Group. Mr. Yang has more than 20 years of experience in the research, production management and international market development of zirconium chemicals. Mr. Yang is responsible for the formulation of the Group's overall business strategies and overseeing the daily operations of the Group.

Mr. Yang Zhen (楊震) (resigned on 15 April 2003), aged 28, is the Vice-Chairman of the Group. Mr. Yang Zhen graduated from Nanjing University of the PRC with a degree in economics in 1999. Mr. Yang Zhen joined the Group in July 1999. Since then, Mr. Yang Zhen has been actively involved in the international marketing activities of the Group and has accompanied the Chairman in seeking new customers and visiting major customers around the world, as well as attending international trade fairs and exhibitions. Mr. Yang Zhen liaises closely with the Group's overseas customers for business development. In addition, Mr. Yang Zhen also monitors the production lines of the Group. Mr. Yang Zhen assists the Chairman in the overall management of the Group, in particular, he is responsible for the development of international markets. Mr. Yang Zhen is the son of the chairman of the Group.

Ms. Huang Yue Qin (黃月琴), aged 35, is the manager of the sales, purchasing and marketing departments of the Group. Ms. Huang joined the Group in 1991 and has accumulated more than 10 years of import and export experience in the zirconium chemicals industry. Ms. Huang has frequently visited clients in the USA, Japan and Europe, and maintained very good relationship with the Group's overseas customers.

Mr. Zhou Quan (周全), aged 45, joined the Group in 1993. Mr. Zhou is the assistant to the General Manager of the Group, assisting the Chairman in the overall management of the Group. Mr. Zhou has extensive experience in the production supervision of zirconium products and business administration.

Mr. Guo Lu Cun (郭露村) (resigned on 1 January 2004), aged 46, is the Chief Engineer of the Group. Mr. Guo graduated from Nanjing University of Chemistry. He obtained a doctoral degree in zirconium materials engineering after furthering his study and working in Japan for 7 years. Prior to joining the Group in 2000, Mr. Guo was the research director and senior engineer for Jiangsu Ceramics Research Institute. He was also a professor and the director of the research institute for Nanjing University of Chemistry, engaging in the research and development and application of zirconium-based electronic products. After joining the Group, Mr. Guo has been in charge of the development of zirconium products for application in ceramic semiconductors.

EXECUTIVE DIRECTORS *(Cont'd)*

Mr. Li Fu Ping（李福平）(appointed on 9th January 2004), aged 34, is the assistant to the General Manager of the Group. Mr. Li graduated from the Jiangsu Institution of Chemistry, where he majored in business administration, and was the chairman of the student union of the university. Since joining the Group in 1992, he has engaged in business administration and has been the secretary to the general manager of the Group for 10 years. As such, Mr. Li has accumulated extensive experience in business administration. He is a key member of the Group's internal audit committee for ISO9002 quality assurance accreditation and is in charge of the ISO14001 environmental management systems.

NON-EXECUTIVE DIRECTOR

Mr. Sik Siu Kwan (resigned on 17 March 2003), aged 36, was appointed as a non-executive Director in March 2002. Mr. Sik has more than 10 years of experience in investment banking and finance. He works for an international investment bank as a corporate finance director and head of its Greater China Region, responsible for business development and regional business operations. He has completed several listings on the Stock Exchange, and has engaged in corporate finance activities including China B stock listing, and convertible debenture issuance. He achieved first class honours in his Bachelor's degree in engineering from Oxford University in 1989. He is currently a director of ICEA Capital Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gary Cheng Faat Ting（鄭發丁）, aged 35, was appointed as an independent non-executive Director of the Company in November 2001. Mr. Cheng is a professional accountant in both Hong Kong and the USA. Mr. Cheng received his Bachelor's degree in Business Administration (Honours) and Master's degree of Business Administration from Southern Illinois University at Carbondale, the USA, in 1992 and 1994 respectively. Mr. Cheng has worked at the international accounting firm, PricewaterhouseCoopers and has extensive experience in auditing and accounting, in particular, in financial institutions. He is currently a partner of Cheng Pang & Co., C.P.A.

Mr. Guo Jing Mao（郭靖茂）, aged 64, was appointed as an independent non-executive Director of the Company in October 2000. Mr. Guo is a retired first-generation expert in zirconium elements. Mr. Guo graduated from Beijing Science and Technology University and specialised in the research on zirconium and other alloy. Mr. Guo has been a senior engineer at the Nonferrous Metals Society of China for 13 years before his retirement in 1999.

SENIOR MANAGEMENT

Ms. Audrey Wong Hoi Yan（黃凱欣）, aged 34, is the Financial Controller and Company Secretary of the Group. Ms. Wong received her Master's degree in Hong Kong. Prior to joining the Group, Ms. Wong worked in an international accounting firm and a securities house for many years. She is a member of the American Institute of Certified Public Accountants and the Hong Kong Society of Accountants.

Mr. Shen Hui（沈輝）, aged 36, graduated from Nanjing University majoring in chemistry. He was previously involved in zirconium research and development at the Jiangsu Ceramics Research Institute. Mr. Shen joined the Group in 1998 and is currently the director and chief engineer of the nanomaterials research centre of the Group. He is in charge of the Company's project for the research and development of nanometer grade zirconium oxides, one of the projects under Jiangsu Province's "Ninth Five-year Plan". Mr. Shen has extensive experience in the research and development of new products, and has produced significant research results in the application of zirconium in ceramics during his tenure in the Jiangsu Ceramics Research Institute.

SENIOR MANAGEMENT *(Cont'd)*

Ms. Sun Hong Di (孫紅娣), aged 36, is the head of the technology and quality control department of the Group. Ms. Sun joined the Group in 1990 and has been responsible for quality control, analysis and monitoring of zirconium chemicals. Ms. Sun has been involved in devising the national quality standards for zirconium chemical products with the former Ministry of Chemical Industry of the PRC. Ms. Sun was one of the leaders of the Group's working team for the ISO9002 accreditation.

Ms. Wu Xi Wei (吳夕瑋), aged 35, graduated from Jiangsu Television University majoring in international trade and economics. Since joining the Group in 1991, Ms. Wu has been responsible for the financial function of the Group, and is currently the finance manager of Yixing Zirconium. She has extensive experience in financial management and has maintained good relationships with local and national tax authorities, customs departments, commodity inspection authorities, foreign exchange control authorities and various banks.

Mr. Yuan Jian Rong (袁建榮), aged 49, is the head of the work safety and environmental protection department of the Group. Since joining the Group in 1986, Mr. Yuan has participated in various training functions in respect of environmental protection laws and regulations. For a number of years, he has been engaged in work safety and environmental protection and has helped the Company in maintaining high standards of work safety and environmental protection. The Company was therefore accredited on several occasions by the environmental protection authorities under the central government. He is also the deputy head of the working team responsible for the ISO14001 environmental management systems.

Ms. Zheng Jing Yi (鄭景宜), aged 39. Ms. Zheng graduated from the Central South Industrial University (中南工業大學) with major in chemical analysis and is a senior engineer. She has worked in the fields of analysis, research, production management and operation of battery materials for years. She joined Yixing Zirconium in May 2003 as deputy general manager and is responsible for the energy materials branch factory.

Mr. Zhou Zhi Cai (周志才), aged 37. Mr. Zhou graduated from the Central South Industrial University (中南工業大學) with major in physics and chemistry in 1988 and received his doctorate degree from Hunan University in 1997. He had worked in BYD, the largest battery manufacturer in the PRC, and engaged in the research and production of Li-ion battery.

Ms. Ma Fang Xiu (馬昉秀), aged 35. Ms. Ma received her master degree in inorganic chemistry from Tianjin Nankai University in 1995. She had worked in a renowned PRC battery manufacturer as deputy general manager and engineer in chief and engaged in the production and technology development of NiMH and Ni-Cd battery.

CORPORATE INFORMATION

Executive Directors
Mr. Yang Xin Min *(Chairman)*
Mr. Yang Zhen (resigned on 15 April 2003)
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Guo Lu Cun (resigned on 1 January 2004)
Mr. Li Fu Ping (appointed on 9 January 2004)

Non-executive Director
Sik Siu Kwan (resigned on 17 March 2003)

Independent Non-executive Directors
Mr. Gary Cheng Faat Ting, CPA, AHKSA
Mr. Guo Jing Mao

Financial Controller and Company Secretary
Ms. Audrey Wong Hoi Yan, AICPA, AHKSA

Auditor
RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

Principal Bankers
Bank of China, Yixing Sub-branch
No. 106 Taige Xi Road
Yicheng Town
Yixing City
Jiangsu Province
PRC

Bank of China, Xushe representative office
No. 121 Hongxin Road
Xushe Town
Yixing City
Jiangsu Province
PRC

Agricultural Bank of China
Xushe representative office
No. 2 Hongxin Road
Xushe Town,
Yixing City
Jiangsu Province
PRC

Head Office and Principal Place of Business
68 Hong Xin Road
Xushe Town
Yixing City
Jiangsu Province
PRC

Place of Business and Correspondence Address in Hong Kong
Office 3509, 35th Floor
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Grand Cayman
British West Indies

Hong Kong Branch Share Registrar and Transfer Office
Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
No. 56 Gloucester Road
Wanchai
Hong Kong

Stock name: ASIA ZIRCONIUM
Stock code: 0395

AUDITORS' REPORT

RSM Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

TO THE SHAREHOLDERS OF
ASIA ZIRCONIUM LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong
29 March 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Turnover	*3*	**299,720**	267,310
Cost of sales		**(201,850)**	(167,298)
Gross profit		**97,870**	100,012
Other revenues	*3*	**1,141**	1,162
Distribution costs		**(8,083)**	(10,348)
Administrative expenses		**(14,415)**	(17,774)
Profit from operations	*4*	**76,513**	73,052
Finance costs	*5*	**(4)**	(540)
Profit before taxation		**76,509**	72,512
Taxation	*6*	**(10,218)**	—
Profit attributable to shareholders	*7*	**66,291**	72,512
Dividends	*8*	**19,800**	19,740
Earnings per share — basic (RMB)	*9*	**16.6 cents**	22.8 cents
Earnings per share — diluted (RMB)	*9*	**16.6 cents**	22.8 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2003

	Note	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	*13*	**124,746**	54,647
Intangible assets	*14*	**4,500**	—
Held-to-maturity security	*15*	**—**	1,063
		129,246	55,710
Current assets			
Inventories	*17*	**18,538**	15,547
Held-to-maturity security	*15*	**1,067**	—
Tax receivable	*18*	**10,159**	15,787
Trade and other receivables	*19*	**39,549**	23,904
Cash and bank balances	*21*	**139,665**	172,988
		208,978	228,226
Current liabilities			
Tax payable	*6(a)*	**25,628**	20,570
Trade and other payables	*22*	**41,502**	45,665
		67,130	66,235
Net current assets		**141,848**	161,991
Total assets less current liabilities		**271,094**	217,701
Financed by:			
Share capital	*24*	**42,450**	42,450
Other reserves		**91,585**	77,636
Retained profits		**137,059**	97,615
SHAREHOLDERS' FUNDS		**271,094**	217,701

Approved by the Board of Directors on 29 March 2004

YANG Xin Min
Director

ZHOU Quan
Director

BALANCE SHEET

At 31 December 2003

	Note	2003 *RMB'000*	2002 *RMB'000*
Non-current assets			
Investments in subsidiaries	*16*	**91,965**	93,448
Held-to-maturity security	*15*	**—**	1,063
		91,965	94,511
Current assets			
Other receivables	*19*	**19,736**	17,470
Held-to-maturity security	*15*	**1,067**	—
Cash and bank balances		**942**	7,751
		21,745	25,221
Current liabilities			
Other payables	*22*	**10,053**	1,564
Net current assets		**11,692**	23,657
Total assets less current liabilities		**103,657**	118,168
Financed by:			
Share capital	*24*	**42,450**	42,450
Reserves		**61,207**	75,718
SHAREHOLDERS' FUNDS		**103,657**	118,168

Approved by the Board of Directors on 29 March 2004

YANG Xin Min
Director

ZHOU Quan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

		The Group Reserves							
	Share capital	Merger reserve	Share premium	Reserve fund	Enterprise expansion fund	Staff welfare fund	Exchange reserve	Retained profits	Total
				(Note a)	*(Note a)*	*(Note a)*			
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2002	31,836	(11,085)	—	5,670	2,835	2,835	—	47,819	79,910
Issue of shares upon listing	10,614	—	74,293	—	—	—	—	—	84,907
Listing expenses	—	—	(12,608)	—	—	—	—	—	(12,608)
Profit for the year	—	—	—	—	—	—	—	72,512	72,512
Transfer to statutory reserves	—	—	—	7,858	3,929	3,929	—	(15,716)	—
Dividends paid	—	—	—	—	—	—	—	(7,000)	(7,000)
Changes in exchange rates	—	—	—	—	—	—	(20)	—	(20)
As at 31 December 2002	42,450	(11,085)	61,685	13,528	6,764	6,764	(20)	97,615	217,701
Profit for the year	—	—	—	—	—	—	—	66,291	66,291
Transfer to statutory reserves	—	—	—	7,029	3,514	3,514	—	(14,057)	—
Dividend paid	—	—	—	—	—	—	—	(12,790)	(12,790)
Changes in exchange rates	—	—	—	—	—	—	(108)	—	(108)
As at 31 December 2003	**42,450**	**(11,085)**	**61,685**	**20,557**	**10,278**	**10,278**	**(128)**	**137,059**	**271,094**
Representing:									
2003 final dividend proposed			19,800						
Others			41,885						
			61,685						

Notes:

(a) A subsidiary of the Group established in the PRC, being a foreign investment enterprise, is required to appropriate an amount from the net profit reported in the statutory accounts to three statutory reserves, namely reserve fund, enterprise expansion fund and staff welfare fund. All these funds are designated for specific purposes.

The reserve fund can only be utilised, with the approval from the relevant authorities, to offset accumulative losses or to increase capital. All foreign-owned and sino-foreign enterprises are generally required to appropriate not less than 10% of their net profit after taxation to the reserve fund, until the balance of the fund reaches 50% of the registered capital of the subsidiary. The reserve fund cannot be distributed in the form of cash.

The enterprise expansion fund can only be utilised to increase capital, with the approval from the relevant authorities. The board of directors of the subsidiary has resolved to appropriate 5% of the net profit to the enterprise expansion fund.

The staff welfare fund can only be utilised for the benefit of the employees. The board of directors of the subsidiary has resolved to appropriate 5% of its net profits to staff welfare fund.

Consolidated Statement of Changes in Equity (cont'd)

		The Company Reserves			
	Share capital *RMB'000*	Share premium *RMB'000*	Exchange reserve *RMB'000*	Retained profits/ (Accumulated losses) *RMB'000*	Total *RMB'000*
As at 1 January 2002	—	—	—	(1)	(1)
Shares issued pursuant to Group Reorganisation	31,836	—	—	—	31,836
Issue of shares upon listing	10,614	61,685	—	—	72,299
Profit for the year	—	—	—	14,010	14,010
Changes in exchange rates	—	—	24	—	24
As at 31 December 2002	42,450	61,685	24	14,009	118,168
Loss for the year	—	—	—	(2,033)	(2,033)
Dividend paid	—	—	—	(12,790)	(12,790)
Changes in exchange rates	—	—	312	—	312
As at 31 December 2003	**42,450**	**61,685**	**336**	**(814)**	**103,657**
Representing:					
2003 final dividend proposed		19,800			
Others		41,885			
		61,685			

Pursuant to the Companies Law of the Cayman Islands and the Company's Articles of Association, in addition to the accumulated profits/(losses) of the Company, the ordinary share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. Accordingly, the Company's reserves available for distribution to shareholders at 31 December 2003 amounted to approximately RMB60,871,000 (2002: RMB75,694,000).

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	2003 RMB'000	2002 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**76,509**	72,512
Adjustments for:		
Depreciation of property, plant and equipment	**5,311**	4,172
Amortisation of intangible assets	**500**	—
Interest expenses	**4**	540
Bank interest income	**(775)**	(1,162)
Operating profit before working capital changes	**81,549**	76,062
(Increase)/Decrease in inventories	**(2,991)**	666
Decrease in tax receivable	**5,628**	4,501
(Increase)/Decrease in trade and other receivables	**(15,757)**	13,491
Decrease in trade and other payables	**(4,163)**	(7,410)
Cash generated from operations	**64,266**	87,310
Interest paid	**(4)**	(540)
Interest received	**775**	1,162
PRC income tax paid	**(5,160)**	—
Net cash from operating activities	**59,877**	87,932
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(75,410)**	(12,751)
Investment in held-to-maturity security	**—**	(1,063)
Acquisition of intangible assets	**(5,000)**	—
Net cash used in investing activities	**(80,410)**	(13,814)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share upon listing	**—**	84,907
Listing expenses	**—**	(12,608)
Repayments of bank loans	**—**	(14,900)
Repayment of amount due to a related company	**—**	(14,588)
Dividend paid	**(12,790)**	(29,000)
Net cash (outflow)/inflow from financing activities	**(12,790)**	13,811
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(33,323)**	87,929
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**172,988**	85,059
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
Cash and bank balances	**139,665**	172,988

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

1. **BACKGROUND OF THE COMPANY**

Asia Zirconium Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company was listed on The Stock Exchange of Hong Kong Limited on 28 October 2002.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note (16) to the financial statements.

2. **PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared under historical cost convention, and in accordance with accounting principles generally accepted in Hong Kong, and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements of the Hong Kong Companies Ordinance.

(b) Changes in accounting policies

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Society of Accountants (HKSA), the term of HKFRS, is inclusive of Statements of Standard Accounting Practice (SSAPs) and Interpretations approved by the HKSA.

SSAP 12 (Revised) Income Taxes

The Group has adopted SSAP 12 (Revised) Income Taxes ("SSAP 12 (Revised)"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively, but the adoption of SSAP 12 (Revised) has not had material effect on the results for the years ended 31 December 2002 and 2003.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2003.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(d) Subsidiaries

Subsidiaries are companies in which the Company directly or indirectly, holds more than half of the issued share/registered capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses, if necessary. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Related parties

Parties are considered to be related if one has the ability to control the other, directly or indirectly, or has the ability to exercise significant influence over the financial and operating decisions of the other. Parties are also considered to be related if they are subject to common control or common significant influence.

(f) Revenue recognition

(i) Sales of goods

Sales of goods are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to the customers and the title has passed.

(ii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal outstanding and at the rates applicable.

(iii) Dividend

Dividend income is recognised when the shareholders' rights to receive payment have been established.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated income statement in the period in which they are incurred. When the expenditure results in increase in the future economic benefits expected to be obtained from the use of the assets, the expenditures are capitalised.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(g) Property, plant and equipment *(Cont'd)*

Depreciation of property, plant and equipment is provided using the straight-line method over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows:

Land use rights	Over the lease period
Buildings	10-30 years
Machinery and equipment	5-20 years
Office equipment and fixtures	5 years
Motor vehicles	5 years

Gains and losses on disposals of property, plant and equipment are recognised in the consolidated income statement based on the net disposal proceeds less the carrying amount of the assets at the date of disposal.

(h) Construction in progress

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the period of construction, installation or resting. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for use.

(i) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the consolidated income statement. Provision is made when there is a diminution in value other than temporary.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(j) Held-to-maturity securities *(Cont'd)*

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered.

Provision are made when carrying amounts are not expected to be recovered and are recognised in the consolidated income statement as an expense immediately.

(k) Inventories

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

Cost, calculated on the first-in first-out cost basis, comprises all costs of purchase, costs of conversion, including direct labour and an appropriate proportion of production overheads, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

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

(l) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(m) Foreign currencies

The Group maintains its books and records in Renminbi ("RMB"). Transactions denominated in currencies other than RMB are translated into RMB at exchange rates in effect at the time of the transactions. Monetary assets and liabilities expressed in other currencies are translated into RMB at exchange rate prevailing at the balance sheet date. Exchange differences are dealt with in the consolidated income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement items are translated at average rates. Exchange differences are dealt with as a movement in reserves.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(n) Taxation

Income tax expense represented the sum of the tax currently payable and deferred tax.

Income tax is provided on the basis of the results for the year for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(o) Intangible assets

(i) Intangible assets

Expenditure on acquired technical know-how is capitalised and amortised using the straight line method over the useful lives of five years from the date when the technical know-how is available for use.

(ii) Research and development costs

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

An internally generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is a straight-line basis over its useful life, which is usually no more than five years.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

There was no development costs capitalised during the financial year.

(p) Segment reporting

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

Inter-segment pricing is based on similar terms as those available to other external parties.

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(p) Segment reporting *(Cont'd)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total costs incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(q) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the consolidated income statement on a straight-line basis over the lease term.

(r) Cash and cash equivalents

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

(s) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefits

The Group contributes to Mandatory Provident Fund scheme ("MPF Scheme") which is available to all employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentage of employees' basic salaries. Payments made to the MPF Scheme are charged as an expenses to the consolidated income statement as they all due.

2. **PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

(s) **Employee benefits** *(Cont'd)*

(ii) Retirement benefits *(Cont'd)*

The assets of the MPF Scheme are held separately from those of the Group in independently administered fund.

The Group is required to contribute to a defined contribution retirement scheme for employees in the PRC based on the applicable basis and rates in accordance with the relevant government regulations.

(t) **Provisions and contingent liabilities**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

3. **TURNOVER, REVENUE AND SEGMENT INFORMATION**

The Group is principally engaged in the research, development, manufacturing and sales of zirconium compounds, electronic materials and electronic ceramics. Revenues recognised during the year are as follows:

	2003	2002
	RMB'000	*RMB'000*
Turnover	**299,720**	267,310
Other revenues — interest income	**775**	1,162
— others	**366**	—
	1,141	1,162
	300,861	268,472

Primary reporting format — geographical segments

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

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Cont'd)*

Secondary reporting format — business segments

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

- Zirconium compounds; and
- electronic materials and electronic ceramics.

(i) Primary reporting format — geographical segments

For the year ended 31 December 2003

	Japan	The USA	The PRC	The Netherlands	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	60,281	79,084	107,144	26,870	26,341	299,720
Segment results	12,741	27,809	42,341	7,156	7,823	97,870

For the year ended 31 December 2002

	Japan	The USA	The PRC	The Netherlands	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	83,153	81,024	58,906	14,260	29,967	267,310
Segment results	25,015	33,893	22,547	5,148	13,409	100,012

(ii) Secondary reporting format — business segments

For the year ended 31 December 2003

	Turnover	Profit from operations	Carrying amount of segment assets	Capital expenditure
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Zirconium compounds	289,963	94,904	106,666	19,023
Electronic materials and electronic ceramics	9,757	2,966	64,985	48,503
	299,720	97,870	171,651	67,526
Unallocated assets			166,573	7,884
Interest income		775		
Unallocated costs		(22,132)		
		76,513	338,224	75,410

For the year ended 31 December 2002

The Group conducts its business within one business segment which is research, development, manufacturing and sales of zirconium compounds primarily in the PRC and therefore no business segments are presented.

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2003 *RMB'000*	2002 *RMB'000*
Auditors' remuneration	**542**	584
Depreciation	**5,311**	4,172
Amortisation of intangible assets	**500**	—
Exchange loss	**254**	257
Research and development costs	**3,434**	2,774
Operating lease of land and building	**799**	720
Provision for inventories obsolescence	**—**	245
Staff costs (including directors' emoluments) *(Note 10)*	**14,774**	19,379

5. FINANCE COSTS

	2003 *RMB'000*	2002 *RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**4**	540

6. TAXATION

The amount of taxation charged to the consolidated income statement represents:

	2003 *RMB'000*	2002 *RMB'000*
Hong Kong profits tax	**—**	—
PRC EIT	**10,218**	—
	10,218	—

(a) No provision for Hong Kong profits tax has been made in the financial statements as the Group had no assessable profit in Hong Kong for the year (2002: Nil).

Yixing Xinxing Zirconium Co. Ltd ("Yixing Zirconium") is a wholly-owned subsidiary of the Company incorporated in the PRC, and therefore subjects to PRC Enterprise Income Tax ("EIT") at local statutory rate. Pursuant to the relevant income tax laws in the PRC, Yixing Zirconium is entitled to income tax exemption for the first and second profit-making years and a 50% reduction in EIT for the following three years starting from January 2003. The applicable rate of EIT for Yixing Zirconium is 12% for the year ended 31 December 2003 (being 50% of the standard rate for foreign investment enterprises located in coastal open economic regions). As a result, the provision for EIT is calculated at 12% on the assessable profit for the year.

6. TAXATION *(Cont'd)*

(b) Deferred taxation

As at 31 December 2002 and 2003 respectively, no provision for deferred tax has been recognised in the financial statements as there have been no material temporary differences for tax purposes.

(c) As the Group's major operation and income were located in the PRC, the applicable tax rate to the Group was the tax rate of 12% during the year applicable to the PRC subsidiary as stated in (a) above.

Reconciliation between tax expense and accounting profit at applicable tax rate:

	2003		2002	
	RMB'000	**%**	*RMB'000*	%
Profit before tax	**76,509**		72,512	
Tax at the applicable tax rate of 12%	**9,181**	**12.0**	8,702	12.0
Tax effect of profit exempted from income tax for the first two profitable years of operation	**—**	**—**	(8,974)	(12.4)
Tax effect of expenses/income that are not deductible/taxable in determining taxable profit	**808**	**1.1**	272	0.4
Tax effect of unrecognised tax losses	**229**	**0.3**	—	—
Tax expense and effective tax rate for the year	**10,218**	13.4	—	—

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of approximately RMB2,033,000 (2002: profit of RMB14,010,000) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

	2003	2002
	RMB'000	*RMB'000*
Interim, paid	**—**	7,000
Final, proposed — HK3.7 cents per ordinary share	**19,800**	12,740
	19,800	19,740

At a meeting of the Board held on 29 March 2004, a final dividend of HK3.7 cents (2002: HK3 cents) per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of reserves for the year ending 31 December 2004.

9. EARNINGS PER SHARE

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

	2003	2002
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share (RMB)	**66,291,000**	72,512,000
Number of Shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**400,000,000**	317,808,000
Effect of dilutive potential ordinary shares — share options	**408,000**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**400,408,000**	317,808,000

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003	2002
	RMB'000	*RMB'000*
Wages and salaries	**11,360**	15,689
Retirement benefit scheme	**2,161**	2,086
Other social welfare costs	**1,253**	1,604
	14,774	19,379

11. DIRECTORS' EMOLUMENTS

	2003	2002
	RMB'000	*RMB'000*
Directors' fees:		
Executive directors	**—**	—
Independent non-executive directors	**117**	117
Other emoluments:		
Salaries, other allowances and benefits in kind		
Executive directors	**2,584**	7,316
Independent non-executive directors	**—**	—
Retirement benefit scheme		
Executive directors	**122**	167
Independent non-executive directors	**—**	—
	2,823	7,600

11. DIRECTORS' EMOLUMENTS *(Cont'd)*

Note:

This includes amount of approximately RMB658,000 (2002: RMB880,000) of operating lease rentals and no discretionary bonus (2002: RMB3,800,000) was payable to any executive director.

During the year, no emolument was paid to the directors as inducement to join or upon joining the Group or a compensation for loss of office.

The emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil — RMB1,000,000	**6**	5
RMB1,000,001 — RMB1,500,000	**—**	—
RMB1,500,001 — RMB2,000,000	**—**	—
RMB2,000,001 — RMB2,500,000	**—**	—
RMB2,500,001 — RMB3,000,000	**1**	1
RMB3,000,001 — RMB3,500,000	**—**	—
RMB3,500,001 — RMB4,000,000	**—**	—
RMB4,000,001 — RMB4,500,000	**—**	1
	7	7

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2002: two) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining one (2002: three) individual was as follows:

	2003	2002
	RMB'000	*RMB'000*
Salaries and other benefits	**533**	1,630
Retirement benefits schemes	**13**	289
	546	1,919

The emoluments of the individual was within the following band:

	Number of employees	
	2003	2002
Nil — RMB1,000,000	**1**	3

13. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	Land use rights	Buildings	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
At 1 January 2003	16,061	29,582	31,539	754	1,140	989	80,065
Additions	27,163	12,024	28,524	88	1,272	6,339	75,410
Transfers	—	989	—	—	—	(989)	—
At 31 December 2003	**43,224**	**42,595**	**60,063**	**842**	**2,412**	**6,339**	**155,475**
Accumulated depreciation							
At 1 January 2003	4,202	7,286	13,218	484	228	—	25,418
Charge for the year	432	1,618	2,941	82	238	—	5,311
At 31 December 2003	**4,634**	**8,904**	**16,159**	**566**	**466**	**–**	**30,729**
Net book value							
At 31 December 2003	**38,590**	**33,691**	**43,904**	**276**	**1,946**	**6,339**	**124,746**
At 31 December 2002	11,859	22,296	18,321	270	912	989	54,647

All the Group's land and buildings are held in the PRC. The land use rights amounted to approximately RMB11,505,000 and RMB27,085,000 cover a period of 30 years and 50 years expiring in the year 2030 and 2053 respectively.

14. INTANGIBLE ASSETS

	The Group
	Technical know-how
	RMB'000
Additions and at 31 December 2003	5,000
Accumulated amortisation	
Charge for the year and at 31 December 2003	500
Net book value:	
At 31 December 2003	4,500
At 31 December 2002	—

15. HELD-TO-MATURITY SECURITY

At 31 December 2003, the Group had a certificate of deposit amounted to HK$1,000,000 (RMB1,067,000) which carried interest at a fixed rate of 1.8% per annum and with a maturity period of two years. The certificate of deposit will mature in November 2004 and the balance was reclassified as current assets as at 31 December 2003.

The above certificate of deposit was charged to a bank to secure the banking facilities granted to the Company as mentioned in Note (27) below.

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2003	2002
	RMB'000	*RMB'000*
Unlisted shares	**31,836**	31,836
Amount due from a subsidiary	**60,129**	61,612
	91,965	93,448

The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiary at the time when they became members of the Group at the date of reorganisation.

The amount due from a subsidiary is unsecured, non-interest bearing and the Company will not demand for repayment from the subsidiary within the next twelve months from the balance sheet date.

Details of the Company's principal subsidiaries as at 31 December 2003 are as follows:

Name	**Place and date of incorporation/ establishment**	**Issued and fully paid share capital or registered capital**	**Proportion of nominal value of issued capital/ registered capital held by the Group** *Direct holding*	*Indirect holding*	**Principal activities and place of operation**
Kingweston Technology Limited ("Kingweston")	British Virgin Islands 6 January 2000	US$2,500,000	100%	—	Investment holding in Hong Kong
Yixing Xinxing Zirconium Company Limited *(Note)* ("Yixing Zirconium")	The People's Republic of China 7 June 2000	US$10,500,000	—	100%	Research, development, manufacturing and sales of zirconium compounds, electronic materials and electronic ceramics in the PRC

16. INVESTMENTS IN SUBSIDIARIES *(Cont'd)*

Name	Place and date of incorporation/ establishment	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activities and place of operation
			Direct holding	*Indirect holding*	
Century Dragon Investment Limited ("Century Dragon")	Hong Kong 5 June 2000	HK$100	—	100%	Leasing of the Group's office premises in Hong Kong, provision of administrative services and general trading in Hong Kong

Note: Yixing Zirconium is a foreign investment enterprise with an operating period of 30 years commencing on 7 June 2000.

17. INVENTORIES

	The Group	
	2003	2002
	RMB'000	*RMB'000*
Raw materials	**3,874**	3,749
Work in progress	**973**	873
Finished goods	**13,691**	10,925
	18,538	15,547

All the inventories were carried at cost.

18. TAX RECEIVABLE

	The Group	
	2003	2002
	RMB'000	*RMB'000*
VAT receivable	**12,566**	18,193
VAT payable	**(2,407)**	(2,406)
	10,159	15,787

18. TAX RECEIVABLE *(Cont'd)*

Tax receivable represents PRC value-added tax ("VAT") receivable during the year.

The Group's sales of manufactured products are subject to VAT. The applicable tax rate for domestic sales is 17%. Input VAT on purchases of raw materials and other production materials can be used to set off against output VAT on domestic sales.

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due from a director *(Note (20))*	**—**	—	**302**	—
Due from a subsidiary *(Note (23))*	**—**	—	**4,500**	2,502
Trade receivables *(Note)*	**26,089**	22,051	**—**	—
Prepayments and other receivables	**13,460**	1,853	**17**	104
Dividend income receivable	**—**	—	**14,917**	14,864
	39,549	23,904	**19,736**	17,470

Note:

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

	The Group	
	2003	2002
	RMB'000	*RMB'000*
0 — 90 days	**24,135**	21,537
91 — 180 days	**1,734**	84
181 — 365 days	**113**	430
More than 1 year	**107**	—
	26,089	22,051

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

20. AMOUNT DUE FROM A DIRECTOR

	The Company
	RMB'000
Name	
Mr. Yang Xin Min	
Amount oustanding at	
31 December 2003	302
31 December 2002	—

20. AMOUNT DUE FROM A DIRECTOR *(Cont'd)*

Maximum amount during the year	*RMB'000*
2003	1,418
2002	—

The amount due from a director is unsecured, interest free and repayable on demand.

21. CASH AND BANK BALANCES

	The Group	
	2003	2002
	RMB'000	*RMB'000*
Cash on hand	**195**	261
Cash in banks	**139,470**	172,727
	139,665	172,988

As at 31 December 2003, bank deposits of approximately RMB125,000 (2002: RMB453,000) were pledged for trade financing facilities granted by banks in the PRC.

As at 31 December 2003, approximately RMB138,212,000 (2002: RMB164,765,000) of the Group's cash and bank balances were denominated in Renminbi and kept in the PRC. The conversion of Renminbi denominated balances into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003	2002	**2003**	2002
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due to a subsidiary *(Note (23))*	**—**	—	**9,457**	346
Due to directors *(Note (23))*	**8,682**	9,715	**137**	751
Trade payable *(Note a)*	**6,373**	6,229	**—**	—
Notes payable	**—**	1,466	**—**	—
Salary and welfare payables	**15,287**	13,346	**—**	—
Accruals and other payables	**11,160**	14,909	**459**	467
	41,502	45,665	**10,053**	1,564

22. TRADE AND OTHER PAYABLES *(Cont'd)*

Note:

(a) Aging analysis of trade payable is as follows:

	The Group	
	2003	2002
	RMB'000	*RMB'000*
0 — 90 days	**4,643**	2,021
91 — 180 days	**927**	418
181 — 365 days	**299**	695
More than one year	**504**	3,095
	6,373	6,229

23. AMOUNTS DUE FROM/(TO) A SUBSIDIARY/DIRECTORS

The amounts due are unsecured, non-interest bearing and repayable on demand.

24. SHARE CAPITAL

	Number of shares		Ordinary share capital			
	2003	2002	**2003**		2002	
			HK$	***RMB***	*HK$*	*RMB*
Authorised:						
At beginning of year	**1,000,000,000**	3,900,000	**100,000,000**	**106,000,000**	390,000	413,400
Increase during the year	**–**	996,100,000	**–**	**–**	99,610,000	105,586,600
At end of year	**1,000,000,000**	1,000,000,000	**100,000,000**	**106,000,000**	100,000,000	106,000,000
Issued and fully paid:						
At beginning of year	**400,000,000**	100	**40,000,000**	**42,449,700**	10	10
Shares issued pursuant to Group Reorganisation	**–**	299,999,900	**–**	**–**	29,999,990	31,836,290
Shares issued upon listing	**–**	100,000,000	**–**	**–**	10,000,000	10,613,400
At end of year	**400,000,000**	400,000,000	**40,000,000**	**42,449,700**	40,000,000	42,449,700

25. CAPITAL COMMITMENTS

	2003	2002
	RMB'000	*RMB'000*
Contracted but not provided for		
— purchases of plant and machineries	2,495	989
— construction in progress	4,330	—
Authorised but not contracted for		
purchases of plant and machineries	—	4,354

26. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2003, the Group had significant related party transactions as summarised below:

		2003	2002
		RMB'000	*RMB'000*
Electricity supply from a related company	*(a)*	8,209	6,627
Steam supply from a related company	*(a)*	17,993	15,327
Purchase of coal on behalf of a related company	*(b)*	—	2,735
Water supply from a related party	*(c)*	2,705	1,656
Purchase of a new plant from a related company	*(f)*	5,180	—

(a) Yixing Zirconium and Jiangsu Xinxing Chemicals Group Corporation ("Xinxing Chemicals Group"), a private owned enterprise wholly owned by Mr. Yang Xin Min who is the substantial shareholder and director of the Company, has entered into an electricity and steam supply agreement dated 1 September 2000 and two supplemental agreements. Pursuant to these agreements, the supply of electricity and steam are conducted on commercial terms in the normal course of the electricity and steam supplying business of the related company.

(b) Yixing Zirconium entered into a purchasing agreement with a related company, to purchase coal on its behalf at cost on 1 January 2001. The agreement ceased on 30 April 2002.

(c) Water was supplied by Yixing City Xushe Water Supply Plant ("the Water Plant"), a collectively-owned enterprise in Xushe Town of Yixing City, to Yixing Zirconium, for manufacturing purposes. Purchase of water was conducted in the normal course of business at prices and terms similar to those charged to and contracted with other customers of the Water Plant. The Water Plant is a related party to the extent that Ms. Bao Xi Mei (being the spouse of Mr. Yang Xin Min), is the legal representative of the Water Plant.

(d) Pursuant to a trademark licensing agreement dated 12 July 2000 entered into between Yixing Zirconium and a related company, the latter has agreed to grant an exclusive license to the former or the Group to use the "Long Jing" trademarks in the PRC, the USA and Japan respectively, during their respectively legally valid periods at nil consideration.

26. RELATED PARTY TRANSACTIONS *(Cont'd)*

(e) Certain buildings of Yixing Zirconium were erected on land with the respective land use rights belong to Xinxing Chemicals Group. The land is provided by the related company to Yixing Zirconium rent free from 1 January 2003 to 29 June 2003. Subsequently Yixing Zirconium acquired the respective land use rights from that related company during the year as described in note (f).

(f) Yixing Zirconium entered into a transfer agreement with Xinxing Chemicals Group on 30 June 2003 to acquire the land use rights of a piece of land and six buildings erected thereon for starting up a new plant at a consideration of RMB5,180,000, based on the valuation of an independent certified valuer.

Pursuant to the Listing Rules, Xinxing Chemicals Group was a connected person of the Group as mentioned in note(a) and the transfer agreement constituted a connected transaction of the Group.

The acquisition was conducted in the ordinary and usual course of business of the Group, and the terms of the transfer agreement were entered on arm's length basis. As the land and buildings acquired were located next to the current zirconium chemicals production plants which can in turn provide the new plant with a continuous production flow, low transportation costs and streamline the production of Yixing Zirconium, the directors and independent non-executive directors considered that the transaction was fair and reasonable and in the interest of the Group, and would benefit the Group's development in the long run.

27. BANKING FACILITIES

At 31 December 2003, the Group pledged a bank deposit of approximately RMB125,000 (2002: RMB453,000) as securities for trade financing facilities granted by banks in the PRC as mentioned in Note (21) above.

At 31 December 2003, the Group had banking facilities including bank overdraft of HK$1,000,000 and a corporate credit card of HK$300,000. The facilities are secured by the certificate of deposit amounted to HK$1,000,000 held by a bank in Hong Kong as mentioned in Note (15) above.

28. OPERATING LEASE COMMITMENTS

At 31 December 2003, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003	2002
	RMB'000	*RMB'000*
Within one year	**614**	1,023
After one year but within five years	**1,497**	1,956
After five years	**8,049**	8,423
	10,160	11,402

29. RETIREMENT BENEFITS SCHEME

Prior to 1 December 2000, the Group did not have any pension or retirement benefits scheme for its employees in Hong Kong. With effect from 1 December 2000, the Group has set up a defined contribution retirement scheme, the MPF Scheme under the Mandatory Provident Fund legislation regulated by the Mandatory Provident Fund Scheme Authority in Hong Kong and to make contributions for its eligible employees in Hong Kong at rates specified in the rules.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on the applicable basis and rates in accordance with the relevant government regulations.

The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the respective schemes.

30. SHARE OPTION SCHEME

Pursuant to a shareholders' resolution passed on 24 September 2002, the Company's share option scheme was approved and adopted. Under the scheme, share options can be granted to eligible persons, including employees, executive and non-executive directors, and any consultants or advisors of the Group. Number of share options granted during the year and outstanding at year end are set out below.

Options held by employees

Outstanding at 1 January 2003	Consideration	Exercise price per share	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Outstanding at 31 December 2003
2,000,000	HK$1.00	HK$0.87	—	—	—	2,000,000

The options will be vested in five equal trenches on 1 May of five consecutive years starting from 2003 and exercisable up to 30 April 2008.

The consideration for the 2,000,000 share option granted is HK$1.00.

31. POST BALANCE SHEET DATE EVENT

The following events took place subsequent to 31 December 2003:

(i) Pursuant to a placing agreement dated 3 February 2004 entered into between Mr. Yang Xin Min ("Mr. Yang"), a substantial shareholder of the Company, and a placing agent, 47,000,000 existing ordinary shares of HK$0.1 each in the Company were placed to independent investors at a price of HK$1.17 per share. Upon completion of the placement of shares and pursuant to a subscription agreement entered into between the Company and Mr. Yang, Mr. Yang subscribed for 47,000,000 new ordinary shares of HK$0.1 each in the Company at a price of HK$1.17 per share. The net proceeds of the subscription were intended to be used as general working capital for the Group.

31. POST BALANCE SHEET DATE EVENT *(Cont'd)*

(ii) On 13 February 2004, Yixing Zirconium, a wholly-owned subsidiary of the Group, entered into an acquisition agreement (the "Agreement") with Jiangsu Xinxing Chemicals Group Corporation ("Xinxing Chemicals Group"), a private-owned enterprise wholly owned by Mr. Yang Xin Min, a substantial shareholder and director of the Company. Pursuant to the Agreement, Yixing Zirconium has agreed to acquire the electricity and steam generating plant and related facilities from Xinxing Chemicals Group at the consideration of approximately RMB77,880,000, which will be satisfied by the issue of the 55,170,946 ordinary shares of the Company to Mr. Yang Xin Min. The directors believe that the acquisition will reduce production cost, ensure stable and continuous electricity and steam supply, thus enhancing the Group's earning capacity in the long run. Details of the acquisition contemplated under the Agreement are set out in the Group's press announcement dated 17 February 2004.

32. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the current year's presentation.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 29 March 2004.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting (the "Annual General Meeting") of the Company will be held at Room 9, Floor 35, Tower II Lippo Centre, 89 Queensway, Hong Kong on Tuesday, 18 May, 2004 at 3:00 p.m. for the following purposes:

1. To receive and adopt the audited financial statements of the Company and the reports of the directors and the auditors for the year ended 31 December 2003.

2. To declare a final dividend.

3. To re-elect retiring directors and to authorize the board of directors to fix the directors' remuneration.

4. To re-appoint auditors and to authorize the board of directors to fix their remuneration.

5. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions;

A. "THAT,

(i) subject to sub-paragraph (iii) of this Resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with new shares in the capital of the Company, and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

(ii) the approval in sub-paragraph (i) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

(iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in sub-paragraph (i) of this Resolution, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly, otherwise than pursuant to the following:

(a) a Rights Issue (as defined below);

(b) any shares issued pursuant to the exercise of rights of subscription or conversion under the terms of any warrants or any debentures, bond warrants, notes issued by the Company or any securities which are convertible into shares of the Company;

(c) any share options granted or exercised pursuant to any option scheme or, any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; and

(d) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company; and

(iv) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or

(c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors; and

"Rights Issue" means an offer of shares, open for a period fixed by the Directors to shareholders of the Company on the register on a fixed record date in proportion to their then holdings of such new shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong)."

B. "THAT,

(i) subject to sub-paragraph (ii) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to repurchase its shares in the capital of the Company, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in sub-paragraph (i) of this Resolution, shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this Resolution and the said approval shall be limited accordingly; and

(iii) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or

(c) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors."

C. **"THAT,** the general mandate granted to the Directors to issue and dispose of additional shares pursuant to Ordinary Resolution No. 5A set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No. 5B set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the said Resolution."

6. As special business, to consider and if thought fit, pass with or without amendments the following resolution as Special Resolution :

"**THAT** the Articles of Association of the Company be and is hereby amended as follows:

(a) by inserting before the expression "Auditor" in Article 2 the following new expression:

"associate(s)"	the meaning attributed to it in the rules of the Designated Stock Exchange

(b) by amending the expression "clearing house" in Article 2 in the following manner:

deleting the first few words " a recognised clearing house within the meaning of Section 2 of the Securities and Futures (Clearing House) Ordinance or"

(c) by renumbering Article 76 as Article 76(1) and adding the following as a new Article 76(2) immediately after Article 76(1):

"Where any Member is, under the rules of the Designated Stock Exchange (as amended), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted."

(d) by amending Article 88 in the following manner:

deleting the last few words "not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting" in Article 88 and substituting therefor the words "provided that the minimum length of the period, during which such Notice is given, shall be at least seven (7) days and that the period for lodgment of such Notice shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting"

(e) by amending Article 103(1) in the following manner:

(i) deleting the words "in respect of" in the second line of Article 103 (1) and substituting therefor the word "approving";

(ii) adding the words "or any of his associates" immediately after the word "he" in the second line of Article 103 (1);

(iii) adding the words "or his associate(s)" immediately after the word "Director" in the first line of Article 103 (1)(i) and adding the words "or any of his associates" after the word "him" both in the second line and the third line of Article 103 (1)(i);

(iv) deleting the words "has himself" and substituting therefor the words "or his associate(s) has/have himself/themselves" in the third line of Article 103 (1)(ii);

(v) deleting the words "is or is" and substituting therefor the words "or his associate(s) is/are or is are" in the third line of Article 103 (1)(iii);

(vi) deleting the words "he is" in the first line of Article 103 (1)(iv) and substituting therefor the words "the Director or his associate(s) is/are" and adding the word "/their" immediately after the word "his" in the third line of Article 103 (1)(iv);

(vii) deleting the words "he is" in the first line of Article 103 (1)(v) and substituting therefor the words "the Director or his associate(s) is/are";

(viii) deleting the words "together with any of his associates (as defined by the rules, where applicable, of the Designated Stock Exchange) is" in the third to fifth lines of Article 103 (1)(v) and substituting therefor the words "and/or his associate(s) is/are" and adding the words "or that of any of his associates" immediately after the word "interest" in the seventh line of Article 103 (1)(v);

(ix) deleting the word "both" and adding the words ", his associate(s)" immediately after the "directors" in the third line of Article 103 (1)(vi);

(x) adding the words "or his associate(s)" immediately after the word "Director" in the fourth line of Article 103 (1)(vi);

(f) by amending Article 103 (2) in the following manner:

(i) adding the words "and/or his associate(s)" immediately after the word "Director" in the first line of Article 103 (2);

(ii) adding the word "/or" between the words "and" and "his associates" in the second line of Article 103 (2);

(iii) deleting the words "(as defined by the rules, where applicable, of the Designated Stock Exchange)," in the second and third lines of Article 103 (2);

(iv) deleting the words "are the holders" in the third line of Article 103 (2) and substituting therefor the words "is/are the holder(s)";

(v) adding the word "/their" immediately after the word "his" and adding the words "or that of any of his associates" immediately after the word "interest" in the sixth line of Article 103 (2);

(vi) adding the words "or his associate(s)" immediately after the word "Director" in the seventh line of Article 103 (2);

(vii) adding the words "or any of them" immediately after the word "he", deleting the word "Director's" immediately after the word "the" in the eighth line of Article 103 (2);

(viii) deleting the word "is" immediately after the word "interest" in the eighth line of Article 103 (2) and substituting therefor the words "of the Director or his associate(s) is/are";

(ix) deleting the word "is" immediately after the word "Director" in the ninth line of Article 103 (2) and substituting therefor the words "or his associate(s) is/are";

(g) by amending Article 103 (3) in the following manner:

(i) deleting the words "together with" immediately after the word "Director" in the first line of Article 103 (3) and substituting therefor the words "and/or";

(ii) deleting the words "(as defined by the rules, where applicable, of the Designated Stock Exchange) holds" immediately after the word "associates" in the first line of Article 103 (3) and substituting therefor the word "hold(s)";

(iii) adding the word "/are" immediately after the word "is" in the third line of Article 103 (3);

(iv) adding the words "and/or his associate(s)" immediately after the word "Director" in the third line of Article 103 (3);

(h) by amending Article 103 (4) in the following manner:

   (i) adding the words "and/or his associate(s)" immediately after the word "meeting)" in the second line of Article 103 (4);

   (ii) adding the words "and/or his associate(s)" immediately after the word "Director" in the sixth line of Article 103 (4);

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

By Order of the Board
Audrey Wong Hoi Yan
Financial Controller and Company Secretary

Hong Kong, 29 March 2004

Principal Place of Business in Hong Kong:
Room 9, Floor 35,
Tower II Lippo Centre,
89 Queensway,
Hong Kong.

Notes:

1. The register of members of the Company will be closed from 14 May 2004 to 18 May 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and to attend the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong. Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 13 May 2004.

2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

3. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the Company's branch share registrars not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.

4. An explanatory statement containing further information on the above Resolution 5B will be despatched to the shareholders together with 2003 Annual Report.