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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

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

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gary Cheng Faat Ting, CPA, AHKICPA  
Mr. Guo Jing Mao  
Mr. Shi You Chun (appointed on 16 September 2004)

## FINANCIAL CONTROLLER AND COMPANY SECRETARY

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

## AUDITORS

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

# CORPORATE INFORMATION *(Continued)*

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 68 Hongxin Road  
Xushe Town  
Yixing City  
Jiangsu Province  
PRC

## PLACE OF BUSINESS AND CORRESPONDENCE ADDRESS IN HONG KONG

Office 3509, 35th Floor  
Tower Two, Lippo Centre  
No. 89 Queensway  
Hong Kong  
(852) 2123 9986  
(852) 2530 1699  
Website: <http://www.asiazirconium.com>  
Email: [investors@asiazirconium.com.hk](mailto:investors@asiazirconium.com.hk)

## LEGAL ADVISERS

*On Hong Kong Law*  
Li & Partners  
Room 2201-2203  
World Wide House  
19 Des Voeux Road Central  
Hong Kong

*On Cayman Islands Law*  
Conyers Dill & Pearman, Cayman  
Century Yard, Cricket Square  
Hutchins Drive  
George Town  
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



# FINANCIAL SUMMARY

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	357,218	299,720	267,310	229,263	166,093
Gross profit margin (%)	29%	33%	37%	36%	36%
Profit attributable to shareholders	64,143	66,291	72,512	55,377	25,615
EBIT	74,882	76,513	73,052	56,761	40,654
EBITA	86,662	82,324	77,224	60,138	43,757
Dividends — ordinary shares	17,700	19,800	19,740	22,000	10,000
Earnings per share — basic (RMB)	0.133	0.166	0.228	0.185	0.085
Earnings per share — diluted (RMB)	n/a	0.166	0.228	n/a	n/a
Debt-equity ratio	net cash position	net cash position	net cash position	net cash position	0.011
Dividends payout ratio (%)	28%	30%	27%	40%	39%
Ordinary shares (shares)	504,170,946	400,000,000	317,808,219	300,000,000	300,000,000
Cash and bank balance	114,562	139,665	172,988	85,072	53,178
Cash per share (RMB)	0.23	0.35	0.54	0.28	0.18
Total assets	528,283	338,224	283,936	205,056	140,271
Net asset value	452,286	271,094	217,701	79,910	46,533
Net asset value per share (RMB)	0.90	0.68	0.69	0.27	0.16
Inventory turnover days	36 days	30 days	34 days	40 days	47 days
Debtors turnover days	32 days	32 days	30 days	50 days	36 days
Creditors turnover days	14 days	16 days	19 days	32 days	29 days

Asia Zirconium Limited (the "Company" or "Asia Zirconium", together with its subsidiaries the "Group"), was listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2002. The Group is the largest zirconium chemicals manufacturer and exporter in the PRC. Leveraging on its advantages in zirconium chemicals industry, the Group has extended its business into the production and sale of zirconium-related new energy materials (used as electrode materials for batteries), electronic ceramic products and rechargeable batteries.

The Group started its operations in 1977 and is based in Yixing, Jiangsu Province, the PRC. With over twenty years' development, the Group has successfully transformed from a small scale zirconium chemicals plant to an internationally renowned zirconium chemicals manufacturer with a sizable current annual production capacity of over 40,000 tonnes of various types of zirconium chemicals, 1,500 tonnes of new energy materials and 25 million pieces / sets of PTC heating components. In January 2004, the Group established a new wholly-owned subsidiary in Yixing which specialised in the manufacture and sale of rechargeable batteries, with an annual capacity of over 125 million units of Li-ion, NiMH and NiCd batteries.

Application 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, including nickel hydroxide, hydrogen-storage alloy powder, and lithium cobalt oxide, are electrode materials for NiMH, NiCd and Li-ion batteries. Such products are widely used by leading domestic and overseas battery manufacturers, such as Wuxi Matsushita Battery Co., Ltd. under the Panasonic group in Japan.

The Group's products, with "Long Jing" as the registered trademark in the PRC, Japan, the US & Hong Kong, has long been well-received by the international market. Products have been exported to Japan, the US and Europe for 26 years, 14 years and 15 years, respectively. The Group was also accredited by the China Nonferrous Metals Association as the largest zirconium chemicals exporter in the PRC in 2001.



External View of the Production Site at Yixing



## CORPORATE PROFILE *(Continued)*

Parallel to the expansion of its business, the Group is also committed to improving operating efficiency and assuring high product quality. The Group has been awarded both the ISO14001 Environmental Management System Certification and the ISO9002 Quality System Certification. In 2003, the Group was also accredited as a state key high-tech enterprise. In addition, a number of the Group's products were appraised as high-tech products at state and provincial levels, among which the nanometric zirconium oxide and cerium zirconium compound were rated as Grand New Products by the state and were classified as "China Torch Programme" items.

Apart from the leading position of the Group in the PRC zirconium chemicals market, the experience and expertise of its Chairman, Mr. Yang Xin Min, is also highly appraised by the industry. In April 2004, Mr. Yang was elected by the industry as the Vice Chairman of the newly-established "China Nonferrous Metals Association - Zirconium and Hafnium Branch" in the PRC. He was also nominated a member of the expert team of the China Zirconium and Hafnium Institutional Committee for a term of two years. The management talent and industrial expertise of the Group are therefore widely recognised.



To shareholders,

On behalf of the board of directors (the "Board"), it is my pleasure to present the annual results of Asia Zirconium Limited and its subsidiaries for the year ended 31 December 2004 (the "Year").

For the year ended 31 December 2004, the consolidated turnover increased by 19% over the prior year to RMB357 million. As the gross margin was squeezed by the significant increase in raw material prices, the consolidated gross profit grew at a smaller extent from RMB98 million in 2003 to RMB102 million in 2004. The profit attributable to shareholders for the Year was RMB64 million, represented a 3% decrease over 2003. The Board recommended the payment of a final dividend of HK3.3 cents per ordinary share.

### REVIEW OF 2004 OPERATIONS

2004 was another challenging year for the zirconium industry. While the zirconium products prices have not yet returned to the pre-2003 level, most zirconium products manufacturers were faced with another problem - the continued shortage in and escalating prices of raw material zircon sand. Coupled with the effect of price increases in other raw materials, including nickel, cobalt and coal, the shortage in electricity supply throughout the PRC exerted additional pressure on the operations of zirconium business. In spite of these unfavourable external factors, the Group, through leveraging on its strength in research and development, scale of production, strong and loyal customer base and reputable brand name, maintained its leading position in the PRC zirconium market and achieved a double-digit growth in its revenue. Zirconium compounds remained as the major revenue source for the Group in 2004, contributing to 86% of the consolidated turnover. In the years to come, the Group will continue to enhance the product mix by shifting emphasis from low-end zirconium products to high value-added deep processing products with higher profit margins. The management believes that this would not only secure a stable growth in the key revenue source but would also improve the overall profitability of the Group.



## CHAIRMAN'S STATEMENT *(Continued)*

Towards the end of 2003, the Group has expanded the revenue base through the launching to the market of its new energy materials products, which were used as electrode materials for batteries production. After almost two years' preparation works, the Group has laid down a solid foundation for the rapid development of this new segment. During the Year, the Group has successfully replaced its Japanese competitors to become the only supplier of electrode materials in the PRC to a leading Japanese batteries manufacturer. This evidenced the recognition of the high quality standard for the Group's new energy materials products. The rapid increase in the number of mobile phone users, coupled with the growing popularity of electronic products such as digital cameras and MP3, have stimulated the demand for various types of batteries and hence creating massive demand for electrode materials. Given its strength in quality and cost control, the Group would continue to proactively expand its production capacity for new energy materials to capture more business and expand its market share. As a long-term target, the Group is researching on the usage of zirconium as an additive to the new energy materials which could improve their stability and performance. The Group expects that the successful outcome of the research will bring fruitful return on the Group's results.

In January 2004, the Group established a new wholly-owned subsidiary in the PRC specialising in the research and development, manufacture and sale of rechargeable batteries. Installation of the first production line in the battery plant was completed in the first half of the Year and its operation has commenced in June. Corresponding to the shrinking demand for NiCd batteries due to environmental protection issue, it is anticipated that the demand for NiMH and Li-ion batteries would grow rapidly in the next few years. Taking this factor into consideration, the Group has devoted significant research and marketing resources on its NiMH and Li-ion batteries products. Although the batteries business is still at infancy stage, the Group is confident that this segment will grow over the years to become the third largest pillar business of the Group.

In April 2004, the Group acquired a thermal power plant located at Yixing, the PRC, which supplied the electricity and steam for its production facilities. Whereas the overall manufacturing industries in the PRC were affected by energy shortage throughout the Year, the Group's operations were totally unaffected. Again, the business vision of the management team was proved.

### **FUTURE OUTLOOK**

Looking ahead, apart from the surging global demand for zirconium in various industries, including nuclear energy and high-end technology, the potential demand in common civilian industries, chemical and cosmetic products markets, as well as artificial jewelry industry is immense. Capitalising on its strong and highly professional research and development force, the Group will continue to enhance its zirconium products portfolio, by placing more emphasis on high value-added downstream products, and adjust its development strategy to capture more businesses in both the domestic and overseas market. Besides, the Group is optimistic in the long-term development of its new energy materials products, in particular those with zirconium additive, which has a high-growth potential. Together with the stable development of its new businesses in the batteries and electronic ceramic markets, the Group expects to enter a new era of rapid growth in the next three years. Expanding market share for its new products and achieving high earnings growth would continue to be the main focus of the Group's development.

In closing, I would like to express my most sincere gratitude for the support, diligence and dedication of our management team, employees, vendors, business partners and customers. On behalf of the Board, I would also like to thank our shareholders for their continuous trust and support. I strongly believe that the Group will grow even bigger and stronger in the years to come.

**Yang Xin Min**  
*Chairman*

## INDUSTRY REVIEW

Year 2004 was a supplier's market in the zirconium industry in the PRC. The zirconium market was affected by the continued short supply of the raw material zircon sand and its surging price. In the last quarter of 2004, the shortage problem was worsened by the fact that the world's leading zircon sand supplier in Australia has terminated the relationship with its sole distributor in the PRC, upon which its normal zircon sand supply to the PRC market has been stopped for a certain period of time. Prices of other raw materials (including nickel and cobalt) were in an upward trend during the first half year of 2004 and remained at a relatively high level in the second half year. These factors, coupled with the shortage in supply and increase in prices of electricity and coal in the Eastern part of the PRC, had led to an escalation in the production costs of zirconium chemicals and hence a negative growth on the gross profit margins. Despite the significant cost pressure, the growth in the PRC zirconium market sustained in 2004. Zirconium chemicals production continued to be largely dominated by the PRC, particularly with respect to the production of zirconium oxychloride.

On the global basis, strong market demand for zirconium chemicals was mainly driven by the increase in the uses of zirconium downstream products. It will sustain continuous growth as the technology advances across a diversified spectrum of industries. In particular, advanced and structural ceramics is expected to be the fastest growing sector as a result of the rapid development of the telecommunication industry. Applications in the telecommunication industry, including optic-fibre technology and mobile phones, and in solid oxide fuel cell, will potentially boost the demand for specific high purity zirconium compounds.

In the PRC, certain small scale zirconium manufacturers temporarily suspended operations during the year as a result of their failure in obtaining stable supply of zircon sand and electricity. Under the macro economic austerity measures implemented by the PRC government, the banks continued to adopt stringent credit policies. Given its leading position in the PRC zirconium industry, its large production scale, better cost structure and good relationship with leading zircon sand suppliers, the Group considers the current environment to be a good opportunity for further enlargement of its market share in both the domestic and overseas market.

## BUSINESS REVIEW

A few developments for the Group were noted in the year. In response to the shortage in zircon sand supply, the Group has further enhanced its zirconium products mix by shifting to higher margin downstream products. This strategy was proved to be correct in that the Group achieved relatively good revenue growth despite the negative effect of the tight supply of zircon sand in current year.

In January 2004, the Group established Yixing Better Batteries Company Limited, a wholly-owned subsidiary in the PRC specialised in the manufacture and sale of NiMH, NiCd and Li-ion batteries. Adding to the existing zirconium compounds business and new energy materials business, the Group expected to develop the rechargeable batteries business into its third largest segment in the next few years. Leveraging on its technical strength in zirconium industry, the Group is also engaged in the related electronic ceramic products business, the products of which include PTC chips and components, electric heating tubes and zirconium tiles.



# MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

In addition, the production capacity of new energy materials was expanded during the year to meet the rising demand from the customers. Currently, the Group has secured various local and overseas enterprises, including Wuxi Matsushita Battery Co., Ltd. of Panasonic Group in Japan, as its major customers. Such renowned international customer groups are conducive to the long-term development of the business.

As in the past years, the Group is committed to improving operating efficiency and reducing operating costs. Given the shortage in the electricity supply in the PRC, the Group acquired a thermal power plant in Yixing in April 2004. This helps ensuring the substantial, continuous and stable supply of electricity and steam for the increasing demand from the Group's expanding production scale. Thus, the Group was totally unaffected by the power shortage problem influencing the overall manufacturing industries in the PRC.

## FINANCIAL REVIEW

### Turnover Analysis

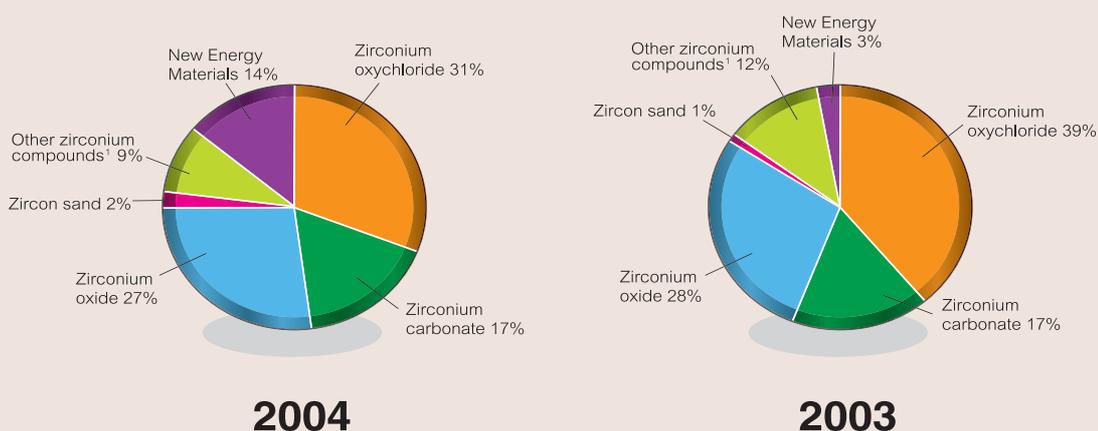
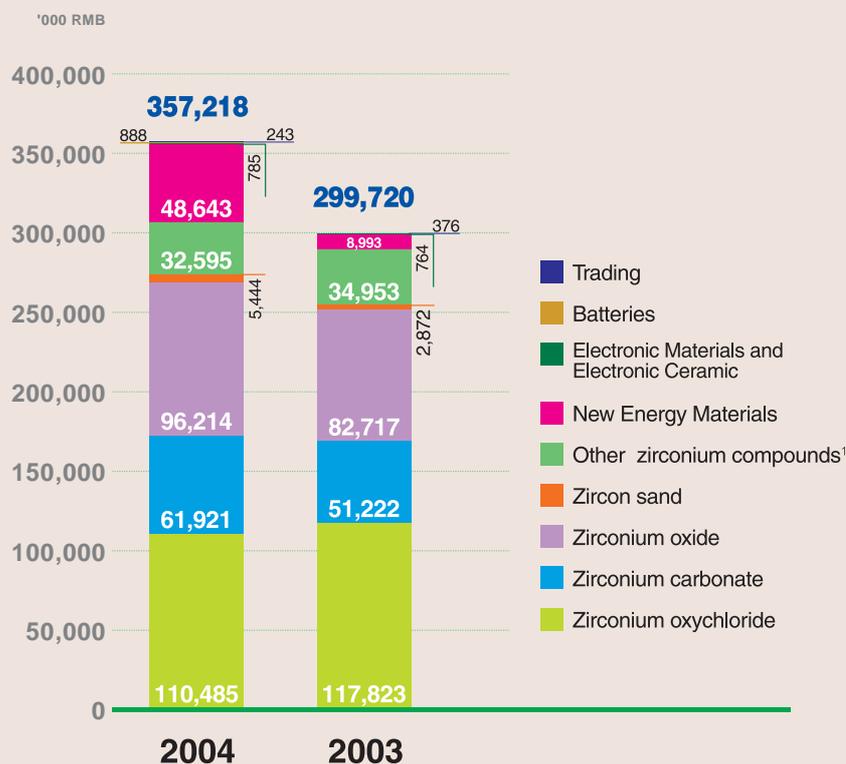
For the year ended 31 December 2004 (the "Year"), the Group achieved a 19% growth in its turnover from RMB299,720,000 in 2003 to RMB357,218,000. The manufacture and sale of zirconium chemicals remained as the major revenue source for the Group, contributed to 86% of the Group's turnover for the Year. As aforementioned, the Group has enhanced the product mix such that the proportion of sales contributed by low-end zirconium products, such as zirconium oxychloride, declined during the Year. The effect of the Group's revenue base expansion in 2003 extended to 2004. Sales of new energy materials increased to RMB48,643,000 in the Year, accounted for 14% of the Group's total turnover. The Board is grateful to see that the Group's measures in opening up new revenue streams were proved to be effective and successful.



Production Workshop of New Energy Materials

## Turnover analysis by product category

The charts below are a comparison of the Group's turnover by product category for the year ended 31 December 2003 and 31 December 2004 and the proportion of turnover for the relevant product categories:



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



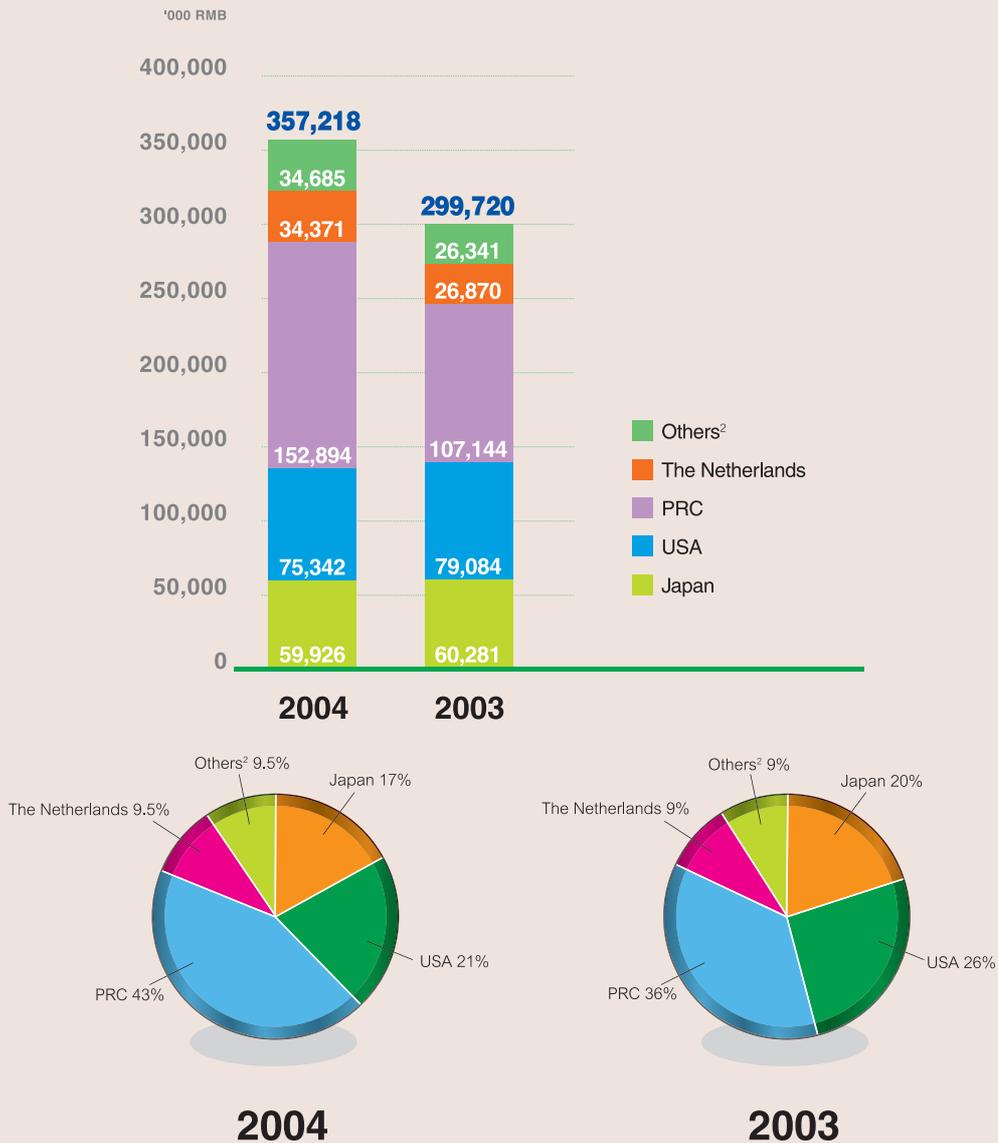
# MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

Total sales of zirconium products increased by RMB16,939,000 or 6% over prior year. This was mainly attributable by the higher sales achieved in zirconium carbonate and various types of zirconium oxides, including super-fine and nanometer grade zirconium oxides which were considered as high value-added products in the market. Total turnover from new energy materials segment was RMB48,643,000, accounted for 14% of the Group's total revenue for the Year. Although sales of new energy materials in 2003 and 2004 were not directly comparable as this new segment only commenced operation in June 2003, we are grateful to see this new segment gaining considerable market share during the Year. With continuous products enhancement and market development efforts, we fully expect the new energy materials products to bring even more valuable returns to the Group in the not too distant future.

### Turnover analysis by geographical region

The following charts presented a year-to-year comparison of the 2003 and 2004 turnover in terms of geographical locations:



Note 2: "Others" included the United Kingdom, Germany, Korea, India, Austria, Lithuania, South Africa, Columbia, Brazil, Turkey, New Zealand and Italy, etc.

Domestic sales of the Group's products increased over the year from 36% to 43% of the total turnover mainly due to the following two reasons:

- (i) more production processes with applications of zirconium chemicals and new energy materials were shifted to the PRC, in particular, certain overseas customers moved their production facilities to the PRC and hence the corresponding portion of export sales became domestic sales; and
- (ii) the continuous development of the PRC economy help stimulating the domestic demand for zirconium chemicals and new energy materials.

In fact, the decrease in export sales was mainly resulted from the shifting of production processes to the PRC as aforementioned. The Group's continued commitment in producing high quality products at reasonable prices has entitled it to enjoy the loyalty from most overseas customers. In particular, the Group has maintained a good business relationship with its customers in Japan, Europe and the US for 26 years, 15 years and 14 years, respectively. This evidenced the recognition of and the confidence in the Group's product quality in the global market.

## **Gross Profit and Gross Margin**

Gross profit for the Year increased slightly by 4% to RMB102,158,000. The gross profit margin dropped from 33% in 2003 to 29% in 2004. This was mainly attributable to the increase in the costs of various raw materials, including zircon sand, nickel, cobalt and coal. Yet the Group was able to shift part of the cost increment to the customers through the adjustment on product prices, hence minimised the effect on its profit margins.

## **Capital Expenditure**

The capital expenditures for the year ended 31 December 2004 and 2003 were approximately RMB164,514,000 and RMB75,410,000, respectively. There was an increase of RMB89,104,000 or 118% in capital expenditure in the Year mainly because of the Group's acquisition of a power plant, the establishment of the batteries plant and the expansion of the new energy materials production capacities during the Year.

## **Liquidity and Financial Resources**

As at 31 December 2004, the Group's cash and bank balances were approximately RMB114,562,000 (2003: RMB139,665,000). The Group continued to maintain a strong and healthy financial structure. The Group had no short-term or long-term borrowings as at the end of year 2004 and 2003.

The average turnover of the Group's accounts receivable was approximately 32 days, same as prior year. Notwithstanding the longer credit period normally granted to the customers in new energy materials and batteries market, the Group continued with its tight credit control policy and maintained the accounts receivable turnover at a healthy level.

Inventory turnover days increased from 30 days for the year ended 31 December 2003 to 36 days for the year ended 31 December 2004. Such increase was mainly due to the following reasons:

- (i) increase in year-end inventories level as at 31 December 2004, resulted from the expansion of zirconium's production scale and operations of new segments; and
- (ii) increase in raw materials inventories, in response to the volatile market of various raw materials.



# MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)



Electric Heating Tubes Workshop (1)



Electric Heating Tubes Workshop (2)

## Exposure to Foreign Exchange Risk

The Group's business transactions are mainly carried out in Hong Kong dollars, Renminbi and US dollars and given the exchange rates between these currencies are less volatile, its exposure to exchange risk is insignificant. It is the Group's policy that it will not engage in any speculative activities. During the Year, the Group has not engaged in any hedging transactions.

## Contingent Liabilities

As at 31 December 2004, the Group had no contingent liabilities.

## Pledge of Assets

As at 31 December 2004, the Group did not pledge any assets (2003: bank deposit of RMB125,000) as securities for the banking facilities granted by its bankers.

## Human Resources

As at 31 December 2004, the Group had a total of approximately 720 employees (2003: 517 employees). Total staff costs (including directors' emoluments) for the Year was approximately RMB17,124,000 (2003: RMB14,774,000), representing 5% of the Group's turnover (2003: 5%). Employees were remunerated based on their performance, experience and prevailing industry practice. Bonuses and rewards might also be awarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis.

Group photo of the Directors

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



## EXECUTIVE DIRECTORS

**Mr. Yang Xin Min** (楊新民), aged 55, 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 almost 30 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.

**Ms. Huang Yue Qin** (黃月琴), aged 36, 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 46, 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. Li Fu Ping** (李福平), aged 35, is the Deputy 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. 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.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Gary Cheng Faat Ting** (鄭發丁), aged 36, was appointed as an independent non-executive Director of the Company in November 2001. Mr. Cheng is a professional accountant in both Hong Kong and the USA. Mr. Cheng received his Bachelor's degree in Business Administration (Honours) and Master's degree of Business Administration from Southern Illinois University at Carbondale, the USA, in 1992 and 1994 respectively. Mr. Cheng has worked at the international accounting firm, PricewaterhouseCoopers and has extensive experience in auditing and accounting, in particular, in financial institutions. He is currently the principal of Gary Cheng & Co., C.P.A.



## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

(Continued)

**Mr. Guo Jing Mao** (郭靖茂), aged 65, 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 China Nonferrous Metals Association for 13 years before his retirement in 1999.

**Mr. Shi You Chun** (史有春), aged 48, was appointed as an independent non-executive Director of the Company in September 2004. Mr. Shi joined Nanjing University in 1982 and is currently an associate professor of the School of Business at Nanjing University and a tutor of master degree students. Mr. Shi graduated with a bachelor degree from the Department of Management Science at Fudan University. He has in the past few years conducted researches and analyses in the areas of sales and marketing, and public relations. He also has expertise in strategic planning, and design and promotion of corporate image. Mr. Shi has published a number of books, dissertations and articles in relation to the abovementioned areas. He was previously the member of China Industrial Economics Association (中國工業經濟學會), Jiangsu Province Hi-Tech Research Association (江蘇省高新科技研究會) and China Marketing Research Association (中國市場研究協會).

### SENIOR MANAGEMENT

**Ms. Li Mei Kuen** (李美娟), aged 36, is the Financial Controller and Company Secretary of the Group. Ms. Li graduated from La Trobe University, Melbourne, Australia and received a bachelor degree in commerce (accounting). She is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Before joining the Group, Ms. Li has worked in two international accounting firms for over 9 years. She has been actively involved in the audit, listing and due diligence engagements of companies in various industries and has extensive experience in auditing and finance.

**Ms. Zheng Jing Yi** (鄭景宜), aged 40. 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 38. 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. Mr. Zhou is the General Manager of Better Batteries and is responsible for the Li-ion battery business.

**Ms. Sun Hong Di** (孫紅娣), aged 37, 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.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT



(Continued)

**Ms. Ma Fang Xiu** (馬昉秀), aged 36. Ms. Ma received her master degree in inorganic chemistry from Tianjin Nankai University in 1995. She had worked in a renowned PRC battery manufacturer and engaged in the production and technology development of NiMH and NiCd battery for many years. She is the Deputy General Manager and Chief Engineer and is responsible for the Group's NiMH and NiCd battery businesses.

**Ms. Wu Xi Wei** (吳夕瑋), aged 36, 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. Hua Jun She** (花軍社), aged 40, a post-doctorate specialised in the research and development of energy material, hydrogen-storage alloy. Mr. Hua is the Chief Engineer of Yixing Zirconium.



# DIRECTORS' REPORT

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the research, development, manufacture and sale of a wide range of zirconium chemicals, electronic materials (with zirconium), electronic ceramics, new energy materials and rechargeable batteries.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 (the "Year") are set out in the consolidated income statement on page 27.

The Board has recommended payment of a final dividend of HK3.3 cents per ordinary share for the Year.

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 20 May 2005, such dividend will be paid on 27 May 2005 to shareholders whose names appear in the register of members of the Company on 20 May 2005.

The register of members of the Company will be closed from 18 May 2005 to 20 May 2005, 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 20 May 2005, 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 17 May 2005.

## FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 4.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 23 to the financial statements.



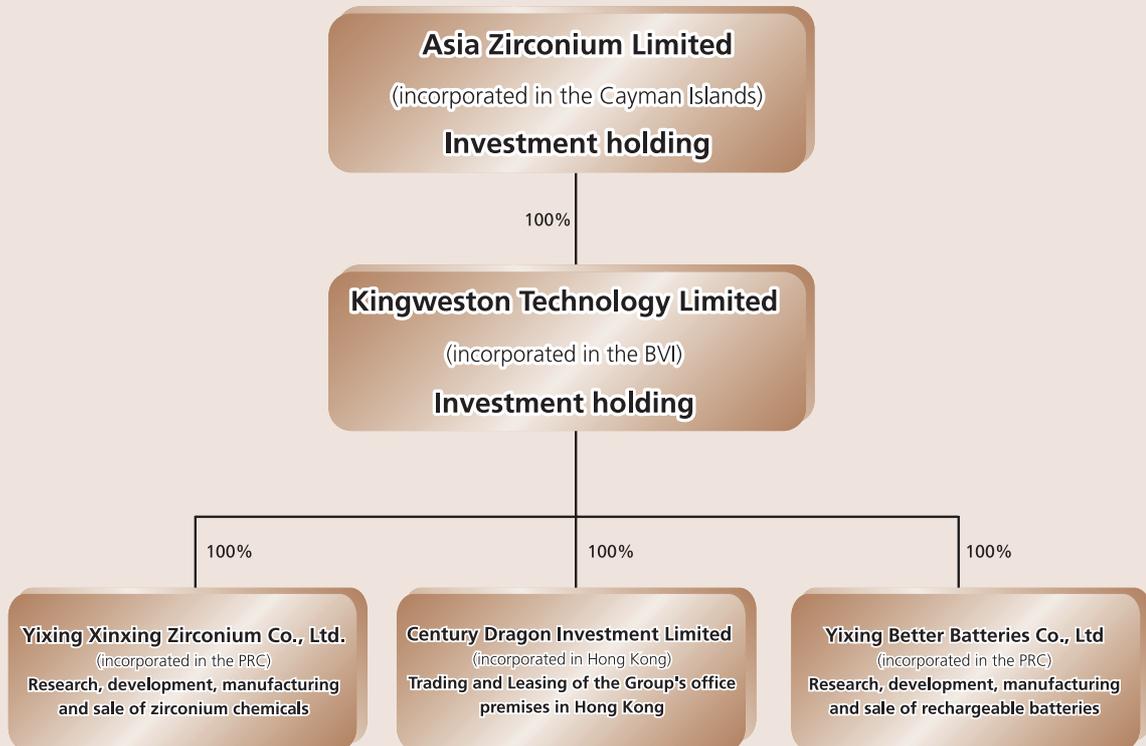
Electronic materials testing equipment



## RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in consolidated statement of changes in equity on pages 30 to 31.

## GROUP STRUCTURE



## DIRECTORS

The Directors at the date of this report are shown below. Their biographies are set out on pages 15 to 16.

### Executive Directors

- Mr. Yang Xin Min, Chairman and Managing Director
- Ms. Huang Yue Qin
- Mr. Zhou Quan
- Mr. Li Fu Ping

### Independent Non-Executive Directors

- Mr. Gary Cheng Faat Ting
- Mr. Guo Jing Mao
- Mr. Shi You Chun (appointed on 16 September 2004)

Each of the above Directors, except for Mr. Shi You Chun, 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' REPORT *(Continued)*

In accordance with Article 86 of the Company's Articles of Association, Mr. Shi You Chun was appointed by the Board of Directors as an Independent Non-Executive Director with effect from 16 September 2004. Mr. Shi has entered into a service contract with the Company for an initial term of two years.

The Company has received from each of the Independent Non-Executive Directors a confirmation letter of his independence pursuant to paragraph 12B of Appendix 16 of the Listing Rules and considers each of the Independent Non-Executive Directors is independent.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2004, the interests of the Directors and the chief executive of the Company in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Nature of Interest	Number of Shares	Percentage of Total Share Capital
Yang Xin Min	Beneficial	Personal	320,970,946	63.66%

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2004, so far as was known to the Directors and the chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

Name of Shareholder	Number of Shares	Percentage of Total Share Capital
Yang Xin Min	320,970,946	63.66%
Value Partners Limited	42,112,000	8.35%

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## DIRECTORS' INTERESTS IN CONTRACTS

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

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

## SHARE OPTIONS GRANTED PURSUANT TO THE SHARE OPTION SCHEME

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the "Scheme") was approved and adopted and, the Board may, at its discretion, grant options (the "Options") to 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.

Details of outstanding Options which have been granted under the Scheme at the beginning and at the end of the year were as follows:

Name of Employee	Date of Grant	Exercise Period	Subscription Price Per Share	Number of share options			Outstanding as at 31 December 2004
				Outstanding as at 1 January 2004	Granted during the Year	Exercised during the Year	
Wong Hoi Yan, Audrey (Note)	1 November 2002	1 May 2003 to 13 August 2004	HK\$0.87	2,000,000	—	2,000,000	—

Note: Ms. Wong Hoi Yan, Audrey had resigned with effect from 13 May 2004.

## CONNECTED TRANSACTIONS

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

### Trademark

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



## DIRECTORS' REPORT *(Continued)*

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.

### **Supply of electricity and steam and acquisition of a thermal power plant**

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 electricity and steam annual expenses will not exceed 10% of the Group's total turnover in each financial 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 Group's total turnover in the Year.

On 13 February 2004, Yixing Zirconium entered into an acquisition agreement with Xinxing Chemicals Group to acquire the thermal power plant and the related facilities (the "Acquisition"), which supplied the electricity and steam as mentioned above, at a consideration of RMB77,780,000, which was determined on arm's length negotiations with reference to the valuation reports prepared by independent valuers. The consideration was satisfied by the issue of 55,170,946 shares by the Company to Mr. Yang Xin Min.

## **Supply of electricity and steam and acquisition of a thermal power plant** *(continued)*

Pursuant to the Listing Rules, Xinxing Chemicals Group is a connected person of the Group and the Acquisition constituted a connected transaction of the Group. Details of the Acquisition agreement were set out in the Group's press announcement dated 17 February 2004 and the circular dated 10 March 2004.

The Acquisition was conducted in the ordinary and usual course of business of the Group, and the terms of the Acquisition agreement were entered on arm's length basis. As the Acquisition will reduce production cost, ensure stable and continuous electricity and steam supply to the Group's production facilities, thus enhancing the Group's earning capacity in the long run, the Directors and Independent Non-Executive Directors considered that the Acquisition was fair and reasonable and in the interests of the Group.

Upon the approval of the Acquisition at the extraordinary general meeting held on 29 March 2004, the ongoing connected transaction in respect of the electricity and steam supply was ceased.

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.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 December 2004, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 14% and 47% 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 21% and 44% of the Group's total purchases for the Year respectively.

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



Batteries Exhibition in Shanghai



# DIRECTORS' REPORT *(Continued)*

## 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.

### 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 the Hong Kong Institute of Certified Public Accountants.

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

## DONATIONS

For the year ended 31 December 2004, 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.

## PRE-EMPTIVE RIGHTS

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



## **SUFFICIENCY OF PUBLIC FLOAT**

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

## **POST BALANCE SHEET DATE EVENT**

There was no significant post balance sheet date event for the Year.

## **AUDITORS**

RSM Nelson Wheeler retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as the Company's auditors is to be proposed at the forthcoming annual general meeting.

By order of the Board

**Huang Yue Qin**

*Executive Director*

8 April 2005



# AUDITORS' REPORT

To the SHAREHOLDERS of  
**ASIA ZIRCONIUM LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 27 to 53 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 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 Institute of Certified Public 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 2004 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  
8 April 2005

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004



	Notes	2004 RMB'000	2003 RMB'000
<b>Turnover</b>	3	<b>357,218</b>	299,720
Cost of sales		<b>(255,060)</b>	(201,850)
Gross profit		<b>102,158</b>	97,870
Other revenues	3	<b>2,771</b>	1,141
Distribution costs		<b>(10,566)</b>	(8,083)
Administrative expenses		<b>(17,481)</b>	(14,415)
Other operating expenses		<b>(2,000)</b>	—
Profit from operations	4	<b>74,882</b>	76,513
Finance costs	5	<b>(114)</b>	(4)
<b>Profit before taxation</b>		<b>74,768</b>	76,509
Taxation	6	<b>(10,625)</b>	(10,218)
Profit attributable to shareholders	7	<b>64,143</b>	66,291
Dividends	8	<b>17,700</b>	19,800
<b>Earnings per share - basic (RMB)</b>	9	<b>13.3 cents</b>	16.6 cents
<b>Earnings per share - diluted (RMB)</b>	9	<b>N/A</b>	16.6 cents

The notes on pages 33 to 53 form an integral part of these financial statements.



# CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	13	278,480	124,746
Intangible assets	14	3,500	4,500
Deferred expenditure		2,838	—
		<b>284,818</b>	<b>129,246</b>
<b>Current assets</b>			
Inventories	16	32,016	18,538
Held-to-maturity security		—	1,067
Value-added tax receivable	20	—	10,159
Trade and other receivables	17	96,887	39,549
Cash and bank balances	19	114,562	139,665
		<b>243,465</b>	<b>208,978</b>
<b>Current liabilities</b>			
Value-added tax payable	20	3,324	—
Tax payable	6(a)	27,289	25,628
Trade and other payables	21	45,384	41,502
		<b>75,997</b>	<b>67,130</b>
<b>Net current assets</b>		<b>167,468</b>	<b>141,848</b>
<b>Total assets less current liabilities</b>		<b>452,286</b>	<b>271,094</b>
<b>Financed by:</b>			
Share capital	23	53,529	42,450
Other reserves		212,375	91,585
Retained profits		186,382	137,059
<b>SHAREHOLDERS' FUNDS</b>		<b>452,286</b>	<b>271,094</b>

Approved by the Board of Directors on 8 April 2005

**YANG Xin Min**  
Director

**ZHOU Quan**  
Director

The notes on pages 33 to 53 form an integral part of these financial statements.

# BALANCE SHEET

As at 31 December 2004



	Notes	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Investment in a subsidiaries	15	102,515	91,965
<b>Current assets</b>			
Other receivables	17	108,342	19,736
Held-to-maturity security		—	1,067
Cash and bank balances		7,822	942
		<u>116,164</u>	<u>21,745</u>
<b>Current liabilities</b>			
Other payables	21	783	10,053
<b>Net current assets</b>			
		<u>115,381</u>	<u>11,692</u>
<b>Total assets less current liabilities</b>			
		<u>217,896</u>	<u>103,657</u>
<b>Financed by:</b>			
Share capital	23	53,529	42,450
Reserves		164,367	61,207
<b>SHAREHOLDERS' FUNDS</b>			
		<u>217,896</u>	<u>103,657</u>

Approved by the Board of Directors on 8 April 2005

**YANG Xin Min**  
Director

**ZHOU Quan**  
Director

The notes on pages 33 to 53 form an integral part of these financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	The Group Reserves								
	Share capital	Merger reserve	Share premium	Reserve fund (Note a)	Enterprise expansion	Staff welfare	Exchange reserve	Retained profits	Total
					fund (Note a)	fund (Note a)			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2003	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)	—
Dividends 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
Issue of shares upon placing	4,999	—	53,489	—	—	—	—	—	58,488
Issue of shares upon acquisition of thermal power plant	5,868	—	72,176	—	—	—	(264)	—	77,780
Exercise of share options	212	—	1,634	—	—	—	—	—	1,846
Share issuing expenses	—	—	(1,378)	—	—	—	—	—	(1,378)
Profit for the year	—	—	—	—	—	—	—	64,143	64,143
Transfer to statutory reserves	—	—	—	7,410	3,705	3,705	—	(14,820)	—
Dividends paid	—	—	(19,733)	—	—	—	—	—	(19,733)
Changes in exchange rates	—	—	—	—	—	—	46	—	46
As at 31 December 2004	<u>53,529</u>	<u>(11,085)</u>	<u>167,873</u>	<u>27,967</u>	<u>13,983</u>	<u>13,983</u>	<u>(346)</u>	<u>186,382</u>	<u>452,286</u>
Representing:									
2004 final dividend proposed			17,700						
Others			<u>150,173</u>						
			<u>167,873</u>						

**Note:**

- (a) Two subsidiaries of the Group established in the People's Republic of China ("PRC"), being foreign investment enterprises, are 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 relevant 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 boards of directors of the subsidiaries have resolved to appropriate 5% of the net profit to the enterprise expansion fund.

The staff welfare fund can only be utilised for the benefits of the employees. The boards of directors of the subsidiaries have resolved to appropriate 5% of their net profit to staff welfare fund.

The notes on pages 33 to 53 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the year ended 31 December 2004



	The Company Reserves				Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Retained profits/ (Accumulated losses) RMB'000	
As at 1 January 2003	42,450	61,685	24	14,009	118,168
Loss for the year	—	—	—	(2,033)	(2,033)
Dividends paid	—	—	—	(12,790)	(12,790)
Changes in exchange rates	—	—	312	—	312
As at 31 December 2003	42,450	61,685	336	(814)	103,657
Issue of shares upon placing	4,999	53,489	—	—	58,488
Issue of shares upon acquisition of a thermal power plant	5,868	72,176	(264)	—	77,780
Exercise of share options	212	1,634	—	—	1,846
Shares issuing expenses	—	(1,378)	—	—	(1,378)
Loss for the year	—	—	—	(2,912)	(2,912)
Dividend paid	—	(19,733)	—	—	(19,733)
Changes in exchange rates	—	—	148	—	148
As at 31 December 2004	<u>53,529</u>	<u>167,873</u>	<u>220</u>	<u>(3,726)</u>	<u>217,896</u>
Representing:					
2004 final dividend proposed		17,700			
Others		150,173			
		<u>167,873</u>			

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 2004 amounted to approximately RMB164,147,000 (2003: RMB60,871,000).

The notes on pages 33 to 53 form an integral part of these financial statements.



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	74,768	76,509
Adjustments for:		
Depreciation of property, plant and equipment	10,780	5,311
Amortisation of intangible assets	1,000	500
Provision for inventories obsolescence	2,000	—
Interest expenses	114	4
Bank interest income	(344)	(775)
Operating profit before working capital changes	88,318	81,549
Increase in deferred expenditure	(2,838)	—
Increase in inventories	(15,478)	(2,991)
Decrease in value-added tax receivable	10,159	5,628
Increase in trade and other receivables	(57,338)	(15,757)
Increase/(Decrease) in trade and other payables	6,235	(4,163)
Increase in value-added tax payable	3,324	—
Cash generated from operations	32,382	64,266
Interest paid	(114)	(4)
Interest received	344	775
PRC enterprise income tax paid	(8,964)	(5,160)
Net cash from operating activities	<u>23,648</u>	<u>59,877</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(86,734)	(75,410)
Receipt of held-to-maturity security	1,064	—
Acquisition of intangible assets	—	(5,000)
Net cash used in investing activities	<u>(85,670)</u>	<u>(80,410)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares upon placing	58,488	—
Proceeds from issuance of shares upon exercising share options	1,846	—
Shares issuance expenses	(1,378)	—
Advance from a related company	1,138	—
Repayment of amount due to directors	(3,491)	—
Dividends paid	(19,733)	(12,790)
Net cash inflow/(outflow) from financing activities	<u>36,870</u>	<u>(12,790)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(25,152)	(33,323)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	139,665	172,988
EFFECT OF EXCHANGE RATE CHANGES	49	—
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
Cash and bank balances	<u>114,562</u>	<u>139,665</u>

The notes on pages 33 to 53 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004



## 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 (15) 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. These financial statements also comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance.

The Hong Kong Institute of Certified Public Accountants had issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have significant impact on its results of operations and financial position.

### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2004.

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

### (c) Subsidiaries

Subsidiaries are companies in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings 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.

### (d) 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.



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (e) 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 on the principal outstanding and at the rates applicable.

#### (iii) Dividend

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

### (f) 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 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.

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.

### (g) 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 borrowing 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.



## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (h) **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, so 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.

### (i) **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 income statement. Provision is made when there is a diminution in value other than temporary.

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.

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

### (j) **Inventories**

Inventories are carried at the lower of cost and net realisable 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 and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of 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.



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (k) 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.

### (l) 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 an average rate. Exchange differences are dealt with as a movement in reserves.

### (m) 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 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 not recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### (n) Intangible assets

#### (i) Technical know-how

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 amortised on 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.



## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (o) 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.

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 combination 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 cost 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 loan, borrowings, corporate and financing expenses and minority interests.

### (p) Operation 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.

### (q) 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.

### (r) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

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

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as other liabilities and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (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 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 income statement as they fall due.

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 applicable 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, they will then be recognised as a provision.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Turnover	<b>357,218</b>	299,720
Other revenues		
- government grants received related to technical invention	<b>700</b>	—
- interest income	<b>344</b>	775
- others	<b>1,727</b>	366
	<b>2,771</b>	1,141
	<b>359,989</b>	300,861

### Primary reporting format - geographical segments

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

### Secondary reporting format - business segments

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

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



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

### (i) Primary reporting format - geographical segments

For the year ended 31 December 2004

	Japan <i>RMB'000</i>	The USA <i>RMB'000</i>	The PRC <i>RMB'000</i>	The Netherlands <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	59,926	75,342	152,894	34,371	34,685	357,218
Segment results	12,123	23,500	51,124	6,465	8,946	102,158

For the year ended 31 December 2003

	Japan <i>RMB'000</i>	The USA <i>RMB'000</i>	The PRC <i>RMB'000</i>	The Netherlands <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
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

### (ii) Secondary reporting format - business segments

For the year ended 31 December 2004

	Turnover <i>RMB'000</i>	Profit/ (Loss) from operations <i>RMB'000</i>	Carrying amount of segment assets <i>RMB'000</i>	Capital expenditure <i>RMB'000</i>
Zirconium compounds	306,902	93,418	169,957	47,362
Electronic materials and electronic ceramics	785	117	18,937	7,158
New energy materials	48,643	8,978	61,635	4,114
Rechargeable batteries	888	(355)	52,642	26,964
	<u>357,218</u>	<u>102,158</u>	<u>303,171</u>	<u>85,598</u>
Unallocated assets			225,112	78,916
Interest income		344		
Unallocated costs		(27,620)		
		<u>74,882</u>	<u>528,283</u>	<u>164,514</u>

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

### (ii) Secondary reporting format - business segments *(continued)*

For the year ended 31 December 2003

	Turnover <i>RMB'000</i>	Profit from operations <i>RMB'000</i>	Carrying amount of segment assets <i>RMB'000</i>	Capital expenditure <i>RMB'000</i>
Zirconium compounds	289,963	94,904	106,666	19,023
Electronic materials and electronic ceramics	764	54	64,985*	48,503*
New energy materials	8,993	2,912		
	<u>299,720</u>	<u>97,870</u>	<u>171,651</u>	<u>67,526</u>
Unallocated assets			166,573	7,884
Interest income		775		
Unallocated costs		(22,132)		
		<u>76,513</u>	<u>338,224</u>	<u>75,410</u>

\* For year 2003, electronic materials, electronic ceramics and new energy materials shared a common pool of assets and capital expenditure.

## 4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Auditors' remuneration	603	542
Depreciation	10,780	5,311
Amortisation of intangible assets	1,000	500
Exchange losses	23	254
Research and development costs	4,675	3,434
Operating lease of land and buildings	607	799
Provision for inventories obsolescence	2,000	—
Staff costs (including directors' emoluments) <i>(Note 10)</i>	<u>17,124</u>	<u>14,774</u>



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 5. FINANCE COSTS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	—	4
Other loans	<u>114</u>	<u>—</u>
	<u>114</u>	<u>4</u>

## 6. TAXATION

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Hong Kong profits tax	—	—
PRC Enterprise Income Tax	<u>10,625</u>	<u>10,218</u>
	<u>10,625</u>	<u>10,218</u>

- (a) No provision for Hong Kong profit tax has been made in the financial statements as the Group had no assessable profit in Hong Kong for the year (2003: Nil).

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

- (b) Deferred taxation

As at 31 December 2004, no provision (2003: Nil) for deferred tax has been recognised in the financial statements as there have been no material temporary differences for tax purposes.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



## 6. TAXATION *(continued)*

(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.

	2004		2003	
	RMB'000	%	RMB'000	%
Profit before tax	<b>74,768</b>		76,509	
Tax at the applicable tax rate of 12%	<b>8,972</b>	<b>12.0</b>	9,181	12.0
Tax effect of expenses / income that are not deductible / taxable in determining taxable profit	<b>1,388</b>	<b>1.9</b>	808	1.1
Tax effect of unrecognised tax losses	<b>265</b>	<b>0.3</b>	229	0.3
Tax expense and effective tax rate for the year	<b>10,625</b>	<b>14.2</b>	10,218	13.4

## 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of approximately RMB2,912,000 (2003: RMB2,033,000) which has been dealt with in the financial statements of the Company.

## 8. DIVIDENDS

	2004 RMB'000	2003 RMB'000
Interim, paid	—	—
Final, proposed — HK3.3 cents per ordinary share	<b>17,700</b>	19,800
	<b>17,700</b>	19,800

At a meeting of the Board held on 8 April 2005, a final dividend of HK3.3 cents (2003: HK3.7 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 2005.



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 9. EARNINGS PER SHARE

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

	2004	2003
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share (RMB)	<b>64,143,000</b>	66,291,000
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>483,422,414</b>	400,000,000
Effect of dilutive potential ordinary shares — share options	—	408,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>483,422,414</b>	400,408,000

## 10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Wages and salaries	<b>15,129</b>	11,360
Retirement benefit costs	<b>1,057</b>	2,161
Other social welfare costs	<b>938</b>	1,253
	<b>17,124</b>	14,774

## 11. DIRECTORS' EMOLUMENTS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
<b>Directors' fees:</b>		
Executive directors	—	—
Independent non-executive directors	<b>209</b>	117
<b>Other emoluments:</b>		
Salaries, other allowances and benefits in kind		
Executive directors	<b>2,541</b>	2,584
Independent non-executive directors	—	—
Retirement benefit costs		
Executive directors	<b>16</b>	122
Independent non-executive directors	—	—
	<b>2,766</b>	2,823

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



## 11. DIRECTORS' EMOLUMENTS *(continued)*

Note:

No operating lease rentals (2003: RMB658,000) and no discretionary bonus (2003: Nil) 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	
	2004	2003
Nil — RMB1,000,000	6	6
RMB1,000,001 — RMB1,500,000	—	—
RMB1,500,001 — RMB2,000,000	1	—
RMB2,000,001 — RMB2,500,000	—	—
RMB2,500,001 — RMB3,000,000	—	1
	<u>7</u>	<u>7</u>

## 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2003: four) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2003: one) individuals were as follows:

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	597	533
Retirement benefits costs	13	13
	<u>610</u>	<u>546</u>

The emoluments of these individuals were within the following band:

	Number of employees	
	2004	2003
Nil - RMB\$1,000,000	<u>2</u>	<u>1</u>



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 13. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	Land use rights	Buildings	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost</b>							
At 1 January 2004	43,224	42,595	60,063	842	2,412	6,339	155,475
Additions	18,720	6,956	105,184	572	—	33,082	164,514
Transfer	—	8,767	143	—	—	(8,910)	—
At 31 December 2004	61,944	58,318	165,390	1,414	2,412	30,511	319,989
<b>Accumulated depreciation</b>							
At 1 January 2004	4,634	8,904	16,159	566	466	—	30,729
Charge for the year	1,162	1,981	6,958	211	468	—	10,780
At 31 December 2004	5,796	10,885	23,117	777	934	—	41,509
<b>Net book value</b>							
At 31 December 2004	56,148	47,433	142,273	637	1,478	30,511	278,480
At 31 December 2003	38,590	33,691	43,904	276	1,946	6,339	124,746

All of the Group's land and buildings are held in the PRC. The land use rights amounted to approximately RMB26,534,000 and RMB29,614,000 covers a period of 50 years expiring in the year 2053 and 2054 respectively.

## 14. INTANGIBLE ASSETS

	The Group Technical know-how <i>RMB'000</i>
<b>Cost</b>	
At 1 January 2004 and 31 December 2004	5,000
<b>Accumulated amortisation</b>	
At 1 January 2004	500
Charge for the year	1,000
At 31 December 2004	1,500
<b>Net book value</b>	
At 31 December 2004	3,500
At 31 December 2003	4,500

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



## 15. INVESTMENT IN A SUBSIDIARY

	The Company	
	2004 RMB'000	2003 RMB'000
Unlisted shares	31,836	31,836
Amount due from a subsidiary	70,679	60,129
	<b>102,515</b>	<b>91,965</b>

The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries 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 2004 are as follows:

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

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



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 16. INVENTORIES

	The Group	
	2004	2003
	RMB'000	RMB'000
Raw materials	9,175	3,874
Work in progress	7,326	973
Finished goods	15,515	13,691
	<b>32,016</b>	<b>18,538</b>

All the inventories were carried at cost.

## 17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	HRMB'000
Due from a director <i>(Note (18))</i>	—	—	327	302
Due from a subsidiary <i>(Note (22))</i>	—	—	92,927	4,500
Trade receivables <i>(Note)</i>	37,085	26,089	—	—
Prepayments and other receivables	59,802	13,460	194	17
Dividend income receivable	—	—	14,894	14,917
	<b>96,887</b>	<b>39,549</b>	<b>108,342</b>	<b>19,736</b>

Note:

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

	The Group	
	2004	2003
	RMB'000	RMB'000
0 - 90 days	32,723	24,135
91 - 180 days	4,362	1,734
181 - 365 days	—	113
More than 1 year	—	107
	<b>37,085</b>	<b>26,089</b>

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.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



## 18. AMOUNT DUE FROM A DIRECTOR

	<b>The Company</b>
	<i>RMB'000</i>
<b>Name</b>	
Mr. Yang Xin Min	
<b>Amount outstanding</b>	
At 31 December 2004	327
At 31 December 2003	302
<b>Maximum amount outstanding during the year</b>	
2004	2,435
2003	1,418

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

## 19. CASH AND BANK BALANCES

	<b>The Group</b>	
	<b>2004</b>	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Cash on hand	<b>4,672</b>	195
Cash in banks	<b>109,890</b>	139,470
	<b>114,562</b>	139,665

As at 31 December 2004, approximately RMB105,447,000 (2003: RMB138,212,000) 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.

## 20. VALUE-ADDED TAX PAYABLE / (RECEIVABLE)

	<b>The Group</b>	
	<b>2004</b>	2003
	<i>RMB'000</i>	<i>RMB'000</i>
VAT receivable	<b>(1,069)</b>	(12,566)
VAT payable	<b>4,393</b>	2,407
	<b>3,324</b>	(10,159)

The Group's sales of manufactured products are subject to value-added tax ("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.



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Due to a subsidiary <i>(Note (22))</i>	—	—	—	9,457
Due to a related company <i>(Note (22))</i>	<b>1,138</b>	—	—	—
Due to directors <i>(Note (22))</i>	<b>5,191</b>	8,682	<b>61</b>	137
Trade payables <i>(Note)</i>	<b>10,442</b>	6,373	—	—
Notes payable	<b>323</b>	—	—	—
Salary and welfare payables	<b>14,877</b>	15,287	—	—
Accruals and other payables	<b>13,413</b>	11,160	<b>722</b>	459
	<b>45,384</b>	41,502	<b>783</b>	10,053

Note:

Aging analysis of trade payables is as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
0 - 90 days	<b>8,109</b>	4,643
91 - 180 days	<b>418</b>	927
181 - 365 days	<b>707</b>	299
More than 1 year	<b>1,208</b>	504
	<b>10,442</b>	6,373

## 22. AMOUNTS DUE FROM/(TO) SUBSIDIARIES / A RELATED COMPANY / DIRECTORS

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

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



## 23. SHARE CAPITAL

	Number of shares		Ordinary share capital			
	2004	2003	2004		2003	
			HK\$	RMB	HK\$	RMB
Ordinary shares of HK\$0.1 each:						
Authorised:	<b>1,000,000,000</b>	1,000,000,000	<b>100,000,000</b>	106,000,000	<b>100,000,000</b>	106,000,000
Issued and fully paid:						
At beginning of year	<b>400,000,000</b>	400,000,000	<b>40,000,000</b>	42,449,700	<b>40,000,000</b>	42,449,700
Issue of shares upon placing	<b>47,000,000</b>	—	<b>4,700,000</b>	4,998,928	—	—
Issue of shares upon acquisition of a thermal power plant	<b>55,170,946</b>	—	<b>5,517,095</b>	5,867,992	—	—
Exercise of share options	<b>2,000,000</b>	—	<b>200,000</b>	212,201	—	—
At end of year	<b>504,170,946</b>	400,000,000	<b>50,417,095</b>	53,528,821	<b>40,000,000</b>	42,449,700

Details of changes in the share capital of the Company are as follows:

- 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.
- 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 privately-owned enterprise wholly owned by Mr. Yang Xin Min, a substantial shareholder and director of the Company. Pursuant to the Agreement, Yixing Zirconium agreed to acquire the thermal power plant and related facilities from Xinxing Chemicals Group at a consideration of RMB77,780,000, which was satisfied by the issue of 55,170,946 ordinary shares of HK\$0.1 each of the Company to Mr. Yang Xin Min.
- During the year, 2,000,000 ordinary shares were issued at HK\$0.87 per share as a result of the exercise of share options of the Company.

## 24. CAPITAL COMMITMENTS

	2004	2003
	RMB'000	RMB'000
Contracted but not provided for		
— purchases of plant and machineries	<b>5,637</b>	2,495
— construction in progress	<b>4,285</b>	4,330



# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

## 25. RELATED PARTIES TRANSACTIONS

During the year ended 31 December 2004, the Group had significant related party transactions as summarised below:

		<b>2004</b>	2003
		<b>RMB'000</b>	RMB'000
Electricity supply from a related company	(a)	<b>2,306</b>	8,209
Steam supply from a related company	(a)	<b>4,351</b>	17,993
Water supply from a related party	(b)	<b>2,116</b>	2,705
Purchase of a new plant from a related company		—	5,180
Purchase of a thermal power plant from a related company	(d)	<b>77,780</b>	—

- (a) Yixing Zirconium and Jiangsu Xinxing Chemicals Group Corporation (“Xinxing Chemicals Group”), a privately-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) 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.
- (c) 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.
- (d) Yixing Zirconium entered into an acquisition agreement with Xinxing Chemicals Group on 13 February 2004 to acquire a thermal power plant and the related facilities at a consideration of RMB77,780,000, which was determined on arm’s length negotiations with reference to the valuation reports prepared by independent valuers. The consideration was satisfied by the issue of 55,170,946 ordinary shares by the Company to Mr. Yang Xin Min.

The acquisition was conducted in the ordinary and usual course of business of the Group, and the terms of the acquisition agreement were entered on arm’s length basis. As the acquisition will reduce production cost, ensure stable and continuous electricity and steam supply to the Group’s production facilities, thus enhancing the Group’s earning capacity in the long run, the directors and independent non-executive directors considered that the transaction was fair and reasonable and in the interest of the Group. Details of the acquisition agreement were set out in the Group’s press announcement dated 17 February 2004 and circular dated 10 March 2004.

## 26. BANKING FACILITIES

At 31 December 2004, the Group had unsecured banking facilities of HK\$400,000 in the form of corporate credit cards and US\$3,800,000 in the form of trade financing facilities.

# NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



## 27. OPERATING LEASE COMMITMENTS

At 31 December 2004, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 RMB'000	2003 RMB'000
Within one year	433	614
After one year but within five years	253	1,497
After five years	—	8,049
	<b>686</b>	<b>10,160</b>

## 28. 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 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.

## 29. 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. No share option is granted during the year or outstanding at year end.

Details of outstanding share options which have been granted under the scheme at the beginning and at the end of the year were as follows:

Name of Employee	Date of Grant	Exercise Period	Subscription Price Per Share	Outstanding as at 1 January 2004	Number of share options		Outstanding as at 31 December 2004
					Granted during the Year	Exercised during the Year	
Wong Hoi Yan, Audrey (Note)	1 November 2002	1 May 2003 to 13 August 2004	HK\$0.87	2,000,000	—	2,000,000	—

Note: Ms. Wong Hoi Yan, Audrey had resigned with effect from 13 May 2004.

## 30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 8 April 2005.



# 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 Office 3509, 35th Floor, Tower II, Lippo Centre, 89 Queensway, Hong Kong on Friday, 20 May 2005 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 2004.
2. To declare a final dividend.
3. To re-elect retiring directors and to authorise the board of directors to fix the directors' remuneration.
4. To re-appoint auditors and to authorise 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 authorise 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 recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

**B. “THAT,**

- (i) subject to sub-paragraph (ii) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to repurchase its shares in the capital of the Company, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in sub-paragraph (i) of this Resolution, shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (iii) for the purposes of this Resolution:

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

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



# NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

- (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. To deal with other ordinary businesses of the Company.

By Order of the Board  
**Li Mei Kuen**  
*Company Secretary*

Hong Kong, 8 April 2005

Principal Place of Business in Hong Kong:  
Office 3509, 35th Floor  
Tower II, Lippo Centre  
89 Queensway  
Hong Kong

*Notes:*

1. The register of members of the Company will be closed from 18 May 2005 to 20 May 2005, 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 17 May 2005.
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 2004 Annual Report.



**ASIA ZIRCONIUM LIMITED**  
**亞洲鋯業有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 0395)

**Form of proxy for use at the Annual General Meeting (the “Meeting”)  
to be held on Friday, 20 May 2005 at 3:00 p.m. (or any adjournment thereof)**

I/We (note 1) \_\_\_\_\_  
of \_\_\_\_\_  
being the holder(s) of (note 2) \_\_\_\_\_ shares of  
HK\$0.10 each (the “Shares”) in the capital of Asia Zirconium Limited (the “Company”) HEREBY APPOINT (note 3) the Chairman of the  
Meeting or (note 4) \_\_\_\_\_  
of \_\_\_\_\_  
as my/our proxy to attend and vote for me/us and on my/our behalf at the Meeting to be held at Office 3509, 35th Floor, Tower II, Lippo Centre,  
89 Queensway, Hong Kong on Friday, 20 May 2005 at 3:00 p.m. (or at any adjournment thereof) in respect of the matters and resolutions set out  
in the notice convening the Meeting as hereunder indicated, and if no such indication is given, as my/our proxy thinks fit.

	<b>Matters/Resolutions</b>	<b>For (note 5)</b>	<b>Against (note 5)</b>
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 2004		
2.	To declare a final dividend		
3.	To re-elect retiring directors and to authorise the board of directors to fix the directors’ remuneration		
4.	To re-appoint auditors and to authorise the board of directors to fix their remuneration		
5.	Ordinary Resolution No. 5A		
	Ordinary Resolution No. 5B		
	Ordinary Resolution No. 5C		
6.	To deal with other ordinary businesses of the Company		

Signature (note 6): \_\_\_\_\_ Dated this day \_\_\_\_\_ of \_\_\_\_\_, 2005

- Notes:*
- Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**. Only one of the joint holders needs to sign (but see note 8 below).
  - Please insert the number of Shares to which this form of proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the Shares registered in your name(s).
  - If any proxy other than the Chairman is preferred, strike out “the Chairman of the Meeting or” herein inserted and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALED BY THE PERSON WHO SIGNS IT.**
  - A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy does not need to be a member of the Company.
  - IMPORTANT: IF YOU WISH TO VOTE FOR A MATTER/RESOLUTION, PLEASE TICK THE BOX MARKED “FOR” BESIDE THE MATTER/RESOLUTION. IF YOU WISH TO VOTE AGAINST A MATTER/RESOLUTION, PLEASE TICK IN THE BOX MARKED “AGAINST” BESIDE THE MATTER/RESOLUTION.** Failure to complete the box will entitle your proxy to cast his votes at his discretion.
  - This form of proxy must be signed by you or your attorney duly authorised in writing, or if you are a corporation, must either be executed under seal or under the hand of an officer, attorney or other person duly authorised.
  - To be valid, this form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority, must be deposited at the Company’s Hong Kong branch share registrar, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time fixed for the Meeting or any adjournment thereof (as the case may be).
  - Where there are joint holders of a Share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such Share as if such holder were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any Share stands shall for this purpose be deemed joint holders thereof.
  - Completion and delivery of this form of proxy will not preclude you from attending and voting at the Meeting or any adjournment thereof if you so wish.