



ASIA ZIRCONIUM LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

04



The Board of Directors (the “Board”) of Asia Zirconium Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 together with the comparative figures. The condensed consolidated interim financial statements (the “Interim Financial Statements”) have not been audited by the auditors of the Group, but have been reviewed by the Company’s Audit Committee.

### Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2004

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2004</b>	2003
	<i>Notes</i>	<b>RMB'000</b>	<i>RMB'000</i>
Turnover	2	<b>170,018</b>	149,024
Cost of sales		<b>(113,466)</b>	(99,008)
Gross profit		<b>56,552</b>	50,016
Other revenue	2	<b>288</b>	453
Distribution costs		<b>(4,846)</b>	(3,915)
Administrative expenses		<b>(7,886)</b>	(6,697)
Profit from operations	3	<b>44,108</b>	39,857
Finance costs		<b>—</b>	—
Profit before taxation		<b>44,108</b>	39,857
Taxation	4	<b>(5,684)</b>	(5,102)
Profit attributable to shareholders		<b>38,424</b>	34,755
Dividends	5	<b>—</b>	—
Basic earnings per share (RMB)	6	<b>0.083</b>	0.087
Diluted earnings per share (RMB)	6	<b>0.083</b>	0.087

## Condensed Consolidated Balance Sheet

At 30 June 2004

	<i>Notes</i>	<b>Unaudited 30 June 2004 RMB'000</b>	Audited 31 December 2003 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>219,333</b>	124,746
Intangible assets	8	<b>4,000</b>	4,500
Total non-current assets		<b>223,333</b>	129,246
<b>Current assets</b>			
Inventories	9	<b>40,606</b>	18,538
Held-to-maturity security	10	<b>1,062</b>	1,067
VAT receivable		<b>336</b>	10,159
Trade and other receivables	11	<b>77,208</b>	39,549
Cash and bank balances		<b>147,922</b>	139,665
Total current assets		<b>267,134</b>	208,978
<b>Total assets</b>		<b>490,467</b>	338,224
<b>Current liabilities</b>			
Tax payable		<b>28,032</b>	25,628
Trade and other payables	12	<b>37,827</b>	41,502
Total current liabilities		<b>65,859</b>	67,130
<b>Net current assets</b>		<b>201,275</b>	141,848
<b>Total assets less current liabilities</b>		<b>424,608</b>	271,094

## Condensed Consolidated Balance Sheet

At 30 June 2004

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
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<b>CAPITAL AND RESERVES</b>		
Share capital	<b>53,280</b>	42,450
Other reserves	<b>195,845</b>	91,585
Retained profits	<b>175,483</b>	137,059
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<b>SHAREHOLDERS' FUNDS</b>	<b>424,608</b>	271,094
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## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2004

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
Net cash (used in)/generated from operating activities	<b>(8,449)</b>	24,471
Net cash used in investing activities	<b>(20,604)</b>	(42,896)
Net cash generated from/(used in) financing activities	<b>37,217</b>	(12,740)
Effects of exchange rate changes	<b>93</b>	(142)
Net increase/(decrease) in cash and cash equivalents	<b>8,257</b>	(31,307)
Cash and cash equivalents at 1 January	<b>139,665</b>	172,988
Cash and cash equivalents at 30 June	<b><u>147,922</u></b>	<u>141,681</u>

### Analysis of balances of cash and cash equivalents

	<b>Unaudited</b>	
	<b>30 June</b>	30 June
	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
Cash and bank balances	<b><u>147,922</u></b>	<u>141,681</u>

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2004

	Share Capital RMB'000	Merger Reserve RMB'000	Share Premium RMB'000	Unaudited Six months ended 30 June 2004			Exchange Reserve RMB'000	Retained Profits RMB'000	Total RMB'000
				Reserve Fund RMB'000	Enterprise Expansion Fund RMB'000	Staff Welfare Fund RMB'000			
At 1 January 2004	42,450	(11,085)	61,685	20,557	10,278	10,278	(128)	137,059	271,094
Issue of shares	10,830	—	125,029	—	—	—	—	—	135,859
Shares issuing expenses	—	—	(1,167)	—	—	—	—	—	(1,167)
Profit for the period	—	—	—	—	—	—	—	38,424	38,424
2003 final dividend	—	—	(19,695)	—	—	—	—	—	(19,695)
Exchange differences	—	—	—	—	—	—	93	—	93
At 30 June 2004	<u>53,280</u>	<u>(11,085)</u>	<u>165,852</u>	<u>20,557</u>	<u>10,278</u>	<u>10,278</u>	<u>(35)</u>	<u>175,483</u>	<u>424,608</u>

	Share Capital RMB'000	Merger Reserve RMB'000	Share Premium RMB'000	Unaudited Six months ended 30 June 2003			Exchange Reserve RMB'000	Retained Profits RMB'000	Total RMB'000
				Reserve Fund RMB'000	Enterprise Expansion Fund RMB'000	Staff Welfare Fund RMB'000			
At 1 January 2003	42,450	(11,085)	61,685	13,528	6,764	6,764	(20)	97,615	217,701
Profit for the period	—	—	—	—	—	—	—	34,755	34,755
2002 final dividend	—	—	—	—	—	—	—	(12,740)	(12,740)
Exchange differences	—	—	—	—	—	—	(142)	—	(142)
At 30 June 2003	<u>42,450</u>	<u>(11,085)</u>	<u>61,685</u>	<u>13,528</u>	<u>6,764</u>	<u>6,764</u>	<u>(162)</u>	<u>119,630</u>	<u>239,574</u>

Two subsidiaries of the Group established in the 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 respective 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 staff welfare fund can only be utilised for the benefit of the employees. These appropriations are made at every year end.

## Notes to the Interim Financial Statements

### 1. Basis of Preparation and Accounting Policies

The Interim Financial Statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The accounting policies, methods of computation, and basis of preparation used in the Interim Financial Statements are consistent with those used in the annual accounts for the year ended 31 December 2003.

### 2. 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.

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.

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

Revenue recognised during the period are as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Turnover	<b>170,018</b>	149,024
Other revenue — interest income	<b>40</b>	250
— other	<b>248</b>	203
Total revenue	<b><u>170,306</u></b>	<u>149,477</u>

## Asia Zirconium Limited

2004 Interim Report

**(i) Primary reporting format — geographical segments**  
**For the six months ended 30 June 2004 (Unaudited)**

	Japan	The USA	The PRC	The Netherlands	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>27,575</u>	<u>38,396</u>	<u>72,594</u>	<u>17,749</u>	<u>13,704</u>	<u>170,018</u>
Segment results	<u>5,887</u>	<u>12,128</u>	<u>29,947</u>	<u>4,030</u>	<u>4,560</u>	<u>56,552</u>

**For the six months ended 30 June 2003 (Unaudited)**

	Japan	The USA	The PRC	The Netherlands	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>32,904</u>	<u>43,153</u>	<u>48,990</u>	<u>13,133</u>	<u>10,844</u>	<u>149,024</u>
Segment results	<u>7,949</u>	<u>14,527</u>	<u>19,785</u>	<u>3,724</u>	<u>4,031</u>	<u>50,016</u>

**(ii) Secondary reporting format — business segments**  
**For the six months ended 30 June 2004 (Unaudited)**

	Zirconium compounds	Electronic materials and ceramics	New energy materials	Batteries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>157,268</u>	<u>385</u>	<u>12,365</u>	<u>—</u>	<u>170,018</u>
Segment results	<u>52,975</u>	<u>130</u>	<u>3,447</u>	<u>—</u>	<u>56,552</u>

**For the six months ended 30 June 2003 (Unaudited)**

The Group conducted its business within one business segment which was the research, development, manufacturing and sales of zirconium compounds and therefore no business segments were presented.

### 3. Depreciation

During the period, depreciation of approximately RMB3,572,000 (2003: RMB2,311,000) was charged to the cost of sales in respect of the Group's property, plant and equipment.

### 4. Taxation

Tax expense in the condensed consolidated profit and loss account comprised:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Provision for PRC EIT	<b><u>5,684</u></b>	<u>5,102</u>

- (a) No provision for Hong Kong profit tax has been made in the accounts as the Group has no assessable profit in Hong Kong for the period.

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 EIT rate for Yixing Zirconium is 12% (being 50% of the standard rate for foreign investment enterprises located in coastal open economic regions). No EIT provision is made for Better Batteries as it did not make a profit in the current period.

- (b) As at 30 June 2004, no provision for deferred tax has been recognised in the financial statements as there have been no material temporary differences for tax purposes.

## 5. Dividends

No interim dividends have been proposed as at the date of this report (2003: Nil).

## 6. Earnings Per Share

Basic earnings per share is calculated based on the profit attributable to shareholders of RMB38,424,000 (2003: RMB34,755,000) and on the weighted average number of 463,054,384 (2003: 400,000,000) shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2004 is calculated based on 463,734,202 (2003: 400,314,804) shares which is the weighted average number of shares in issue during the period plus the weighted average of 679,818 (2003: 314,804) shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 7. Property, Plant and Equipment

	<b>Unaudited</b> <b>30 June 2004</b> <b>RMB'000</b>
Net book value at 1 January 2004	<b>124,746</b>
Additions	<b>98,386</b>
Depreciation	<b>(3,799)</b>
Net book value at 30 June 2004	<b><u>219,333</u></b>

## 8. Intangible Assets — Technical Know How

	<b>Unaudited</b> <b>30 June 2004</b> <b>RMB'000</b>
Net book value at 1 January 2004	<b>4,500</b>
Amortisation charge for the period	<b>(500)</b>
Net book value at 30 June 2004	<b><u>4,000</u></b>

## 9. Inventories

	<b>Unaudited 30 June 2004 RMB'000</b>	Audited 31 December 2003 RMB'000
Raw materials	<b>12,900</b>	3,874
Work in progress	<b>973</b>	973
Finished goods	<b>26,733</b>	13,691
	<b><u>40,606</u></b>	<u>18,538</u>

## 10. Held-to-maturity Security

At 30 June 2004, the Group had a certificate of deposit amounted to HK\$1,000,000 (RMB1,062,000) which carried interest at a fixed rate of 1.8% per annum and with a maturity period of two years. The certificate of deposit will mature in November 2004 and the balance was classified as current assets as at 30 June 2004.

The above certificate of deposit was charged to bank to secure the banking facilities granted to the Company.

## 11. Trade and Other Receivables

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

	<b>Unaudited 30 June 2004 RMB'000</b>	Audited 31 December 2003 RMB'000
0 — 90 days	<b>42,398</b>	24,135
91 — 180 days	—	1,734
181 — 365 days	—	113
More than 1 year	—	107
Trade receivables (a)	<b>42,398</b>	26,089
Deposits, prepayment and other receivables	<b>34,810</b>	13,460
	<b><u>77,208</u></b>	<u>39,549</u>

(a) Normal credit period grant to customers is up to 90 days.

## 12. Trade and Other Payables

Aging analysis of trade payables is as follows:

	<b>Unaudited 30 June 2004 RMB'000</b>	Audited 31 December 2003 RMB'000
0 — 90 days	<b>5,432</b>	4,643
91 — 180 days	—	927
181 — 365 days	—	299
More than 1 year	—	504
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Trade payables	<b>5,432</b>	6,373
Bills payable	<b>1,154</b>	—
Due to a related company (a)	<b>2,438</b>	—
Due to directors (a)	<b>3,862</b>	8,682
Salary and welfare payable	<b>14,190</b>	15,287
Accruals and other payables	<b>10,751</b>	11,160
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	<b><u>37,827</u></b>	<b><u>41,502</u></b>

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

## 13. Capital Commitments

	<b>Unaudited 30 June 2004 RMB'000</b>	Audited 31 December 2003 RMB'000
Contracted but not provided for		
— purchases of plant and machineries	<b>1,455</b>	2,495
— construction in progress	<b>3,885</b>	4,330
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	<b><u>5,340</u></b>	<b><u>6,825</u></b>

## 14. Related Parties Transactions

Related party transactions are as follows:

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2004</b>	2003
		<b>RMB'000</b>	<i>RMB'000</i>
Electricity supply from			
a related company	(a)	<b>2,697</b>	4,286
Steam supply from			
a related company	(a)	<b>5,091</b>	9,489
Water supply from a related party	(b)	<b>1,311</b>	1,242
		<b><u>1,311</u></b>	<b><u>1,242</u></b>

- (a) Yixing Zirconium entered into an electricity and steam supply agreement and a supplemental agreement on 1 September 2000 and 16 September 2000 respectively. Pursuant to these agreements, the supply of electricity and steam are conducted on commercial term in the normal course of the electricity and steam supplying business of the related company. The agreement was terminated on 31 March 2004 when Yixing Zirconium acquired the thermal power plant from a 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, a wholly owned subsidiary of the Company, for manufacturing purpose. 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 Deputy General Manager of Yixing Zirconium and the spouse of Mr. Yang Xin Min, an executive director and the shareholder of the Company, is a legal representative of the Water Plant.

## Results

During the period under review, the Group's turnover and profit before taxation amounted to approximately RMB170,018,000 and RMB44,108,000 respectively, representing increases of 14% and 11% as compared with the same period last year. Profit attributable to shareholders amounted to RMB38,424,000, representing an increase of 11% as compared with that of the same period last year. Earnings per share was approximately RMB8.3 cents (2003: RMB8.7 cents).

## Business Review

### Operation Overview

In 2004, the global zirconium chemicals market was full of challenges. The continued short supply of the raw material zircon sand has pushed up its price significantly. Coupled with the rising trend in prices of other raw materials (including nickel and cobalt) as well as the shortage in supply and increases in prices of electricity and coal in the Eastern part of the PRC, the production costs of zirconium chemicals have escalated. Despite the impact of such unfavourable external factors, the Group managed to maintain its gross profit margin at the satisfactory level 33%, leveraging on its advantages in respect of operating scale, customer base, business network as well as research and development capability.

As in its past years, the Group's objectives for the year 2004 are to develop its principal core businesses, explore new sources of income and strengthen its profitability. With such objectives in mind and after nearly two years of preparation, the Group has established three major core businesses, including the production and sale of zirconium compounds, the manufacturing and distribution of new energy materials, and the production and sales of batteries. In addition, leveraging on its advantages in zirconium compounds industry, the Group is also engaged in the related electronic ceramics products business, the products of which include PTC and components, electric heating tubes and zirconium tiles.

Parallel to the expansion of its business, the Group is also 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 to ensure substantial, continuous and steady electricity and steam supply for the requirements of the Group's plants and expansion of the production lines, so that the Group's business will not be affected by the power shortage in the Eastern part of the PRC.

Apart from the leading position of the Group in the industry, the chairman, Mr. Yang Xin Min, is also an authority in the zirconium industry. Mr. Yang has 29 years of experience in the production, research and management of zirconium. As such, he was elected by the industry as the Vice-Chairman (the Chairman is a government official) of the newly-established "China Non-ferrous Metals Association - Zirconium and Hafnium Branch" in the PRC in April 2004. Mr. Yang was also nominated a member of the expert team of 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.

### **Production and Sale of Zirconium Compounds**

The surging price and short supply of zircon sand has driven the Group to make continuous product mix adjustments, with a shift from emphasising upstream low-end products to downstream deep processing products of higher profit margins. Capitalising on its competitive advantages in research and development, flexible production processes as well as stringent quality and cost control, the Group successfully maintained its leading position in the industry.

The Group continued its pragmatic approach and devoted substantial resources to research and development, streamlining of production processes and strategic planning of market expansion. With the capacity expansion and broadening of revenue base in the second half of 2003, zirconium compounds continued to be the major sources of income and earnings for the Group, with a turnover amounting to RMB157,268,000, representing an increase of 6% as compared to that of the same period last year and accounting for 92.5% of the total revenue in the current period.

### **Manufacturing and Distribution of New Energy Materials**

New energy materials were developed by the Group in 2003. The new products include zirconium hydroxide, hydrogen-storage alloy powder and lithium cobalt oxide. The gross profit margin of these products is higher as they required more technical input. Currently, the Group has established a desirable production scale, and has secured various overseas and local enterprises (such as Wuxi Matsushita Battery Co., Ltd. under Panasonic Group in Japan) as its major customers. Such international customer groups are conducive to the long-term development of the business.

Despite that the new energy materials business is still at infancy stage and is yet to bring significant revenue to the Group, the Group believes that, with the business gradually developing on the right track, it will become a key drive for its growth .

## Production and Sale of Batteries

The Group has extended its business into the battery market. The Group established a new wholly-owned subsidiary, Yixing Better Batteries Company Limited, in January 2004. The company is principally engaged in the manufacturing of Li-ion, Ni-MH and Ni-Cd batteries for sale, and its first production line has commenced operation in June 2004. The Group will continue to steadily expand the production capacity of batteries in phases.

## Prospects

Looking ahead, apart from the surging global demand for zirconium in various fields, including nuclear energy, nuclear military and high-end technology, the potential demand in common civilian industries, chemical and cosmetic products markets, as well as the artificial jewelry industry, is immense. The Group will strive to research and leverage on possible opportunities, adjust its product portfolio and direction of development, expand further its market share in both the domestic and international markets, and implement more stringent internal governance measures, with the ultimate objective of bringing better results to its shareholders and investors.

The Group's series of new energy materials products is expected to enjoy a larger growth in the second half of 2004. The Group acquired a thermal power plant in April 2004 for meeting the increasing electricity demand under its rapid growth, equipping the Group with an additional lead.

In the next three years, new energy materials will form the second pillar in the Group's business. In particular, the Group is currently researching on the utilization of zirconium as an additive to the new energy materials. Should the research be successful, it will pioneer a breakthrough in both the national and international scenes, promising to bring to the Group immense opportunities and return.

Moreover, the Group established Yixing Better Batteries Company Limited ("Better Batteries") in Yixing, PRC in January 2004. It is expected that Better Batteries will become another new focus in the coming three years, forming the third largest pillar business for the Group with its substantial scale. Most of the raw materials utilized in this business will be sourced from Yixing Xinxing Zirconium Co., Ltd., a wholly-owned subsidiary of the Group, which ensure stable quality and supply of the materials, and in turn will form a competitive strength for the long-term development of Better Batteries. Meanwhile, under the Enterprises Income Tax ("EIT") preferential policy of "2-year Free and 3-year Half" for foreign investment enterprises adopted by the State, Better Batteries is entitled to exemption of EIT for 2 years starting from the first profit-making year and a 50% reduction in EIT for the following 3 years.

Besides, during the year, the Group would complete the CQC certification, capacity expansion and trial production works for its electronic ceramic products including PTC and components, electric heating tubes and zirconium tiles, etc. It is projected that the electronic materials and electronic ceramic segment will see remarkable growth in 2005, forming a significant segment for the Group.

The Group has placed much emphasis on scientific research and innovation and is equipped with comprehensive research units, advanced research facilities, a professional and powerful scientific research force, as well as a well-established incentive system. All these have repeatedly generated fruitful results and high efficacy for the Group while at the same time enabling the Group to undertake a number of innovative scientific research projects in the PRC. It is believed that our scientific cooperation and research outcomes will bring to the Group even greater success in the coming three years.

### Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004.

### Substantial Shareholder's and Directors' Interests in Securities

#### Substantial Shareholder's Interests in Securities

As at 30 June 2004, the register of shareholders maintained pursuant to the Securities and Futures Ordinance (the "SFO") shows that the following shareholders with interests representing 5% or more of the Company's issued share capital:

Name of Shareholder	Number of Shares	Percentage of total Share Capital
Yang Xin Min	320,970,946	63.92%
Value Partners Limited	43,708,000	8.70%

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

## Directors' Interests in Securities

As at 30 June 2004, the interests of the directors and chief executive of the Company in the securities of the Company and its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8, stipulated in Section 341 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of Interests	Number of shares and approximate percentage of shares interested
Yang Xin Min	Personal	320,970,946 (63.92%)

## Share Options Granted Pursuant to the Share Option Scheme

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

As at 30 June 2004, Options to subscribe for a total of 2,000,000 shares of the Company have been granted under the Scheme, representing 0.5% of the Company's shares in issue as at the date of grant. No Options have been exercised during the period.

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

Name of Grantee	Date of Grant	Exercise Period	Subscription Price Per Share	Number of Share Options			Outstanding as at 30 June 2004
				Outstanding as at 31 December 2003	Granted during the period	Exercised during the period	
Wong Hoi Yan, Audrey	1 November 2002	1 May 2003 to 13 August 2004	HK\$0.87	2,000,000	—	—	2,000,000

## Connected Transaction

The following connected transaction has been carried out by the Group during the six months ended 30 June 2004:

Yixing Xinxing Zirconium Co., Ltd. (“Yixing Zirconium”), a wholly-owned subsidiary of the Group, entered into a transfer agreement with Jiangsu Yixing Chemicals Group Corporation (“Xinxing Chemicals”) on 13 February 2004 to acquire a thermal power plant at a consideration of RMB77,780,000, based on the valuation of an independent certified valuer.

Xinxing Chemicals is wholly owned by Mr. Yang Xin Min who is the controlling shareholder of the Company, holding 63.92% of the issued share capital of the Company. Pursuant to the Listing Rules, Xinxing Chemicals was a connected person of the Group and the transfer agreement constituted a connected transaction of the Group.

The acquisition was conducted in the ordinary and usual course of business of the Group, and the terms of the transfer agreement were entered on arm’s length basis. As the acquisition will reduce production cost, ensure stable and continuous electricity and steam supply, the directors and independent non-executive directors considered that the transaction was fair and reasonable and in the interest of the Group, and would benefit the Group’s development in the long run.

## Liquidity and Financial Resources

At 30 June 2004, the Group pledged a bank deposit of approximately RMB261,000 (2003: RMB125,000) as securities for trade financing facilities granted by banks in the PRC.

At 30 June 2004, the Group had bank facilities including bank overdraft of HK\$1,000,000 and a corporate credit card of HK\$300,000. The facilities are secured by the certificate of deposit amounted to HK\$1,000,000 held by a bank in Hong Kong as mentioned in Note (10). The Group had the same banking facilities as at 31 December 2003.

The Group had no long term liabilities as at 30 June 2004 and 31 December 2003.

### **Contingent Liabilities**

At 30 June 2004, the Group had no material contingent liabilities.

### **Employees**

For the six months ended 30 June 2004, the Group had approximately 580 employees (same period of 2003: 444 employees). In the first half of 2004, the aggregate employee remuneration (including directors' fees) was approximately RMB7,067,000 (same period of 2003: RMB6,468,000). The Group offers competitive salary packages to its employees who will also be given incentives based on their individual performance as well as the Group's overall remuneration and bonus systems.

### **Purchase, Sale or Redemption of Listed Securities**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2004.

### **Pre-emptive Rights**

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

### **Material Litigation**

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

## Corporate Governance

### Code of Best Practice

The directors are of the opinion that the Code of Best Practice as set out in Appendix 14 to the Listing Rules has been complied with by the Company from 1 January 2004 to 30 June 2004.

### 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 Society of Accountants. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee comprises two independent non-executive directors, namely Mr. Cheng Faat Ting Gary and Mr. Guo Jing Mao, with Mr. Cheng Faat Ting Gary being Chairman of the Audit Committee. The Audit Committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2004.

### Post Balance Sheet Date Event

As at the date of this report, the Group had no post balance sheet date event.

### Publication of Financial Information on the Website of The Stock Exchange

All information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

By order of the Board

**Yang Xin Min**

*Chairman*

Hong Kong, 8 September 2004

The directors of the Company as at the date of this report are Mr. Yang Xin Min, Mr. Zhou Quan, Ms. Huang Yue Qin, Mr. Li Fu Ping, Mr. Cheng Faat Ting Gary and Mr. Guo Jing Mao.