

DIRECTORS' REPORT

Principal Activities

The Group is principally engaged in the manufacture and sale of a wide range of zirconium chemicals under the brandname of "Long Jing".

Results and Appropriations

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 27.

The Board has recommended payment of a final dividend of HK\$0.03 per ordinary share for the Year 2002. An aggregate dividend of RMB19,740,000 was proposed for the Year 2002, including a final dividend of RMB12,740,000 payable and an interim dividend of RMB7,000,000 paid.

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 Monday, 26 May 2003, such dividend will be paid on Monday, 2 June 2003 to shareholders whose names appear in the register of members of the Company on Friday, 23 May 2003.

The register of members of the Company will be closed from Thursday 22 May 2003 to Friday, 23 May 2003, 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 Monday, 26 May 2003, 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 Wednesday 21 May 2003.

Financial Summary

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

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group and the Company during the Year 2002 are set out in note 13 to the financial statements.

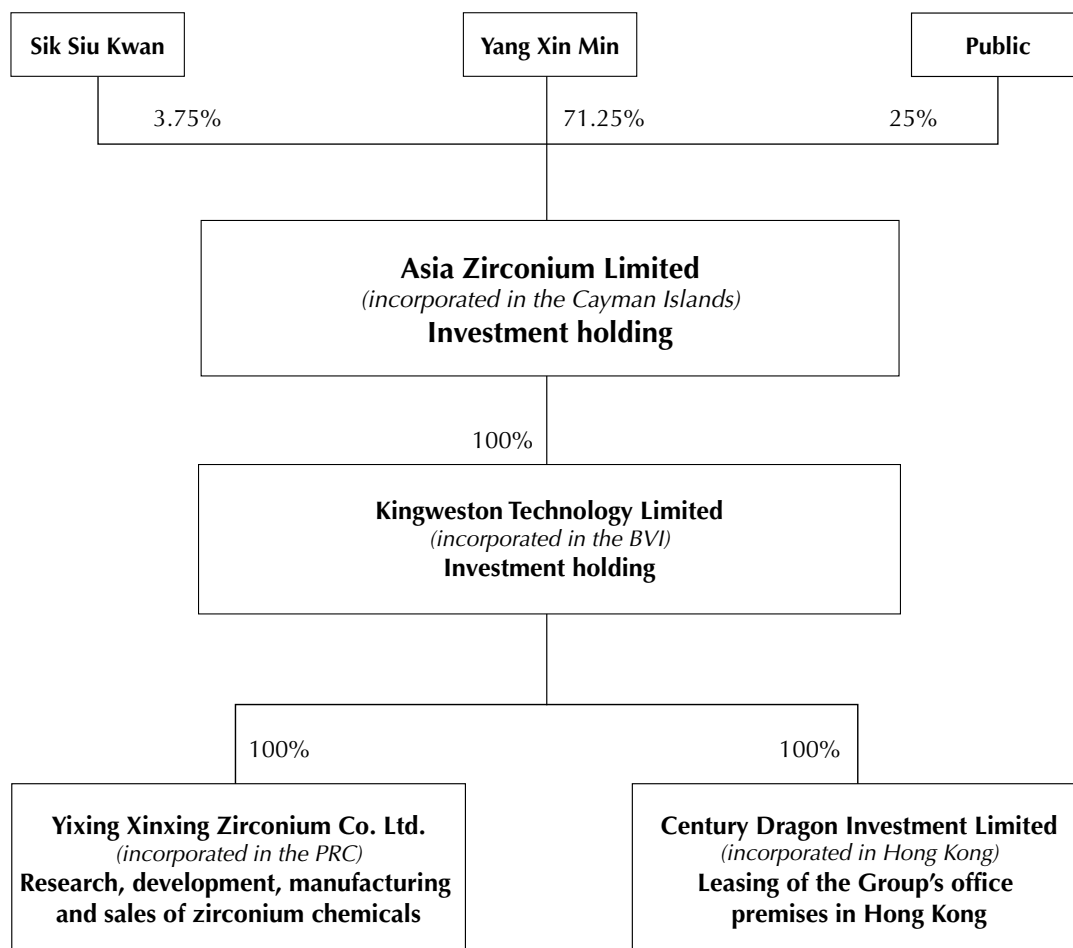
Share Capital

Details of movements in the share capital of the Company during the Year 2002 are set out in note 24 to the financial statements.

Reserves

Details of movements in the reserves of the Group and the Company during the Year 2002 are set out in consolidated statement.

Group Structure



Substantial Shareholder Interests in Securities

As at 31 December 2002, the following interests of the substantial shareholder of 10% or more in the issued share capital of the Company as recorded in the register of substantial shareholders pursuant to Section 16(1) of the SDI Ordinance is as follow:

Name of Substantial Shareholder	Number of Ordinary Shares Personal Interest	Percentage of Issued Share Capital
Yang Xin Min	285,000,000	71.25%

Directors

The Directors of the Company at the date of this report are shown below. Their biographies are set out on pages 22 to 24.

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

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

Directors' Interests in Securities

As at 31 December 2002, the interests (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) of the Directors in the securities of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code ("Model Code") for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Name of Directors	Number of Ordinary Shares Personal Interests	Percentage of Issued Share Capital
Yang Xin Min	285,000,000	71.25%
Sik Siu Kwan (<i>resigned on 17 March 2003</i>)	15,000,000	3.75%

Save as disclosed above, as at 31 March 2002, none of the Directors and their associates had any interests (as defined in the SDI Ordinance) in the securities of the Company or any of its associates as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Interests in Competing Business

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

Directors' Interests in Contracts

None of the Directors of the Company had a material interest, either direct or indirect, in any significant contract to which the Company or its holding companies or any of its subsidiaries was a party at the year-end of or during the Year 2002.

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 Option Scheme

Share Option Scheme Adopted on 24 September 2002

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 purpose of the Scheme is to advance the interests of the Company and its shareholders by enabling the Company to grant Options to attract, retain and reward the Eligible Persons, to provide to the Eligible Persons a performance incentive for continued and improved services with the Company and its subsidiaries, and to enhance such persons' contribution to increase the profits by encouraging capital accumulation and share ownership. The Scheme will expire on 23 September 2012.

Pursuant to the Scheme, the subscription price shall be such price as the Board may in its absolute discretion determine at the time of the grant of the relevant Option but in any case the subscription price must be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share. For the purpose of calculating the subscription price where the Company has been listed for less than five business days, the issue price shall be used as the closing price for any business day falling within the period before listing.

Options granted pursuant to the Scheme will be vested in the grantee at a 20%: 20%: 20%: 20%: 20% ratio in five installments during the exercisable period determined by the Board (under no circumstances should the exercisable period exceed five years from six months after the date of acceptance), and shall expire on the last day of the exercisable period.

Maximum Number of Shares Available for Subscription

The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed in aggregate 30% of the Shares of the Company in issue from time to time ("Overall Scheme Limit"). No Options may be granted under any schemes of the Company (or its subsidiaries) if such grant will result in the Overall Scheme Limit being exceeded.

The total number of Shares which may be issued upon exercise of all Options to be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the Shares of the Company (or its subsidiaries) in issue as at the date of approval of the Scheme (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Subject to the Overall Scheme Limit, the Company may seek approval from its shareholders in general meeting for "refreshing" the "Scheme Mandate Limit". However, the total number of Shares which may be issued upon exercise of all Options to be granted under all of the schemes of the Company under the limit as "refreshed" must not exceed 10% of the Shares in issue as at the date of approval by the shareholders of the renewed limit (the "Refreshed Scheme Mandate Limit"). Options previously granted under any existing schemes (including those outstanding, cancelled or lapsed in accordance with the Scheme or exercised Options) shall not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit. The Company must send a circular to its shareholders containing the information required under the relevant provisions of Chapter 17 of the Listing Rules.

Subject to the Overall Scheme Limit, the Company may seek separate approval from its shareholders in a general meeting for granting Options to subscribe for Shares beyond the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit (as the case may be) provided that the Options in excess of the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought. The Company must send a circular to its shareholders containing the information specified in the relevant provisions of the Listing Rules.

Unless approved by shareholders in general meeting at which the relevant Eligible Person and his/her associates abstain from voting in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, the total number of Shares issued and to be issued upon exercise of the Options granted to such Eligible Person (including exercised, cancelled and outstanding Options) in any 12-month period must not exceed 1% of the Shares of the Company in issue (the "Individual Limit") at such time. With respect to any further grant of Options to an Eligible Person exceeding in aggregate the Individual Limit, the Company must send a circular to its shareholders and the circular must disclose the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted to such Eligible Person), and the information required under the relevant provisions of Chapter 17 of the Listing Rules. The number and terms (including the Subscription Price) of Options to be granted to such Eligible Person must be fixed before the general meeting at which the same are approved, and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the Subscription Price.

Grant of Options to Connected Persons

Each grant of Option(s) to a connected person (as defined in the Listing Rules) of the Company under the Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Option).

Where any Options granted to a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive Director or any of their respective associates would result in the number and value of Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding but excluding Options which have lapsed) to such person in the 12-month period up to and including the date of such grant (a) exceeding in aggregate over 0.1% of the Shares in issue; and (b) exceeding an aggregate value, based on the closing price of the Shares on the Stock Exchange at the date of each grant, in excess of HK\$5 million, such further grant of Options must be approved by the shareholders by the taking of a poll in a general meeting. The Company must send a circular to the shareholders. All connected persons (as defined in the Listing Rules) of the Company must abstain from voting (except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular) at the general meeting. The circular must contain the following:

- (i) details of the number and terms (including the subscription price) of the Options to be granted to each Eligible Person, which must be fixed before the general meeting concerned;
- (ii) a recommendation from the independent non-executive Directors of the Company (excluding any independent non-executive Director of the Company who is the Grantee of the Options) to the independent shareholders as to voting; and
- (iii) the information required under the relevant provisions of Chapter 17 of the Listing Rules.

The Options must be accepted within 28 days from the day of grant, and the grantee must pay a non-remittable amount of HK\$1.00 to the Company.

As at 31 December 2002, a total of 2,000,000 shares of the Company may be issued under the Options granted pursuant to the Scheme, representing 0.5% of the Company's shares in issue as at the date of grant.

Details of the movement of the Company's Options granted during 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 March 2003
				Outstanding as at 31 December 2002	Granted during the Year	Exercised during the Year	
Wong Hoi Yan, Audrey	1 November 2002	1 May 2003 to 30 April 2008 (Note 4)	HK\$0.87	2,000,000	2,000,000	—	2,000,000

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

Connected Transactions

The following connected transactions have been carried out by the Group during Year 2002:

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

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

Supply of power and steam

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

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

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

The Company's independent non-executive directors 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;

Connected Transactions *(Cont'd)***Supply of power and steam** *(Cont'd)*

- 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;
- the transactions entered into during the year do not exceed, in aggregate, 10% of the Company's aggregate turnover in Year 2002 (the "Annual Cap").

The Company's auditors have reviewed the ongoing connected transactions as set out above and confirm that the connected transactions:

- have received the approval of the Board;
- have been entered into in accordance with the pricing policies as stated in the Company's financial statements;
- have been entered into in accordance with the terms of the Agreement governing such transactions or on normal commercial terms in the ordinary and usual course of the Group's business; and
- the values of the ongoing connected transactions do not exceed the Annual Cap mentioned above.

Use of Proceeds

The Group was listed on Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2002, and the proceeds was HK\$80,000,000 after charging all the intermediaries fees and costs of HK\$11,900,000 and the net proceeds amounted to HK\$68,100,000. As stated in the prospectus of the Company dated 17 October 2002, the proceeds will be mainly used for the expansion of production lines. The Group will continue to exercise caution in assessing the effectiveness of expanding production lines. During the Year, the proceeds were used for the following purposes:

- approximately HK\$25 million was used to finance the expansion of the production facilities to increase the annual aggregate production capacity of zirconium oxychloride from the original level of approximately 27,600 tonnes to approximately 35,000 tonnes. The project is in progress.
- approximately HK\$20 million was used to finance the expansion of the micrometric zirconium oxide production facilities from an annual production capacity of approximately 100 tonnes to approximately 1,000 tonnes and establish a 20-tonne nanometric zirconium oxide production facility. Currently, the production capacity of the project has reached 600 tonnes and completion is expected at the end of December 2003.
- approximately HK\$10 million was used to finance the expansion of the zirconium carbonate production facilities from the original level of 4,800 tonnes to 6,000 tonnes. Completion of expansion and commencement of production are expected at the end of October 2003.

Use of Proceeds (Cont'd)

- approximately HK\$8 million was used for the research and development of new products as well as the import of the relevant inspection and research facilities. The ICP instrument and surface detector imported from the USA have already been installed and put into use. To tie in and speed up the development of new products, the purchase of all the remaining parts of the imported and domestic instruments will also be completed as scheduled by the end of July 2003, and will be put into use accordingly.
- approximately HK\$4 million was used for the expansion of the marketing teams in Hong Kong, the PRC and other countries. The Group has formulated and implemented the plan on participating in international exhibitions and international marketing team in 2003.
- the balances were used for the working capital.

For the year ended 31 December 2002, the balance of the unused net proceeds was approximately HK\$45,000,000 and has been placed on deposits with financial institutions in the PRC for the future expansion of the Group's business and the investments of the relevant business areas. All of the proceeds will be used in accordance with the original plan as stated in the prospectus dated 17 October 2002 and it is expected that all of the proceeds will be utilized by the end of March 2004, progressively exerting decisive effects on the future development of the Company.

Laser Particle Analyzer



US-made
Surface
Detector

US-made ICP Instrument

Atomic Absorption Spectrometer

Major Customers and Suppliers

For the year ended 31 December 2002, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 28% and 60% 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 33% and 74% of the Group's total purchases in the corresponding year respectively.

As far as the directors are aware, none of the directors of the Company, their respective associates (as defined in the Listing Rules of The Stock Exchange of Hong Kong Limited), 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 Year 2002.

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 asset 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has been complied with by the Company throughout the Year 2002.

Audit Committee

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

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

Donations

As at 31 December 2002, 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 financial year ended 31 December 2002.

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.

Post Balance Sheet Date Event

As at 22 April, 2003, the Group had no post Balance Sheet Date Event.

Auditors

A resolution for the re-appointment of RSM Nelson Wheeler as the Company's auditors for 2003 is to be proposed at the forthcoming annual general meeting.

By order of the Board

Huang Yue Qin

Executive Director

22 April 2003