

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, Cap 22 (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.

Pursuant to a group reorganisation (the “Group Reorganisation”), details of which have been set out in the Company’s prospectus dated 17 October 2002 (the “Prospectus”), the Company, in aggregate, allotted and issued 299,999,900 shares credited as fully paid, in exchange and as consideration for the acquisition of the entire issued share capital of Kingweston Technology Limited which is the holding company of Yixing Xinxing Zirconium Company Limited, a wholly foreign-owned enterprise incorporated in the People’s Republic of China (the “PRC”). Upon completion of the Group Reorganisation, the Company became the holding company of Kingweston Technology Limited, Yixing Xinxing Zirconium Company Limited and Century Dragon Investment Limited. The Company and its subsidiaries are collectively referred to as the “Group”.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note (15) to the financial statements.

As Mr. Yang Xin Min controlled the aforementioned companies before and after the Group Reorganisation, the Group Reorganisation has been accounted for as a reorganisation of companies under common control and on the basis of merger accounting.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

(b) Adoption of new and revised statements of standard accounting practice

In the current year, the Group adopted the following new or revised Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 34	Employee benefits

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Basis of consolidation

As described above, the Group Reorganisation was among companies under common control and owned by the same shareholder, therefore, the transaction has been accounted for on the basis of merger accounting in accordance with Statement of Standard Accounting Practice No.27 "Accounting for group reconstructions". Under the merger accounting method, the consolidated financial statements have been prepared as if the Company had been the holding company of the Group throughout the year ended 31 December 2002, rather than from the date on which the Group Reorganisation was completed.

The comparative figures as at and for the year ended 31 December 2001 have been presented on the same basis.

Material intra-group balances and intra-group transactions are eliminated on consolidation.

(d) Subsidiaries

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

(e) Related parties

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

(f) Revenue recognition

i) Sales of goods

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

ii) Interest income

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

iii) Dividend income

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

(g) Property, plant and equipment

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

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

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

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

Land use right	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 combined income statement based on the net disposal proceeds less the carrying amount of the assets at the date of disposal.

(h) **Construction in progress**

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost. Costs include construction and acquisition costs, and interest charges arising from 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.

(i) **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized 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 estimated of its recoverable amount, but so that the increase carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) **Held-to-maturity securities**

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the 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.

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

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

(k) Inventories

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

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

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

When inventories are sold, the carrying amount of the inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value 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.

(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 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 profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(m) Taxation

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

Deferred taxation is provided using the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognized unless its realization is assured beyond reasonable doubt.

(n) 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 depreciated on a straight-line basis over its useful life, which is usually no more than five year.

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 cost capitalised during the financial year.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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 transaction 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 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 subject to an insignificant risk of change in value. For the purpose of cash flow, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(r) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefits

The Group contributes to Mandatory Provident Fund scheme ("MPF Scheme") which is available to all employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as a 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 an independently administered fund.

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

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Provisions and contingent liabilities

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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2002 RMB'000	2001 RMB'000
Turnover	267,310	229,263
Other revenues — interest income	1,162	1,056
— others	—	168
Total revenues	<u>268,472</u>	<u>230,487</u>

The Group conducts its business within one business segment which is research, development, manufacturing and sales of zirconium compounds primarily in the PRC, no segment income statement has been prepared by the Group.

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

For the year ended 31 December 2002

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

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

For the year ended 31 December 2001

	Japan RMB'000	The USA RMB'000	The PRC RMB'000	The Netherlands RMB'000	Others RMB'000	Total RMB'000
Segment revenue	82,848	39,653	33,371	26,151	47,240	229,263
Segment result	26,734	12,151	11,946	10,347	20,318	81,496

4. PROFIT FROM OPERATIONS

2002	2001
RMB'000	RMB'000

Profit from operations has been arrived at after charging:

Auditors' remuneration	584	56
Depreciation and amortisation	4,172	3,377
Research and development costs	2,774	488
Property, plant and equipment cost written off	—	288
Provision for bad and doubtful debts	—	1,689
Operating leases of land and building	720	733
Provision for inventories obsolescence	245	—
Staff costs (including directors' emoluments) (Note 10)	19,379	16,711

5. FINANCE COSTS

2002	2001
RMB'000	RMB'000

Interest on:

Bank borrowings wholly repayable within five years	540	1,384
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6. TAXATION

No provision for Hong Kong profit tax has been made in the accounts as the Group had no assessable profit in Hong Kong for the year.

Yixing Xinxing Zirconium Company Limited ("Yixing Zirconium") is a wholly-owned subsidiary of the Company and was incorporated in the PRC, therefore is subject to PRC Enterprise Income Tax ("EIT") at local statutory rate. Pursuant to the relevant income tax laws in the PRC, Yixing Zirconium is entitled to income tax exemption for the first and second profit-making years and a 50% reduction in EIT for the following three years. The first profit-making year was year 2001 and therefore there was no EIT tax charge for the year 2002.

Tax payable represents PRC EIT payable prior the initial public offerings, details of which have been disclosed in the Prospectus.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of approximately RMB14,010,000 which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

	2002 RMB'000	2001 RMB'000
Interim, paid	7,000	—
Final, proposed — of HK\$0.03 per ordinary share	12,740	22,000
	<u>19,740</u>	<u>22,000</u>

At a meeting of board of directors held on 22 April 2003, a final dividend of HK\$0.03 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 retained profits for the year ended 31 December 2002.

The interim dividend paid for the year 2002 and the final dividend paid for the year 2001 represented profit appropriation paid by Yixing Zirconium to the then shareholder of its immediate holding company, Kingweston, prior to the listing of the Company in the main board of The Stock Exchange of Hong Kong Limited in 2002.

9. EARNINGS PER SHARE

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

	2002	2001
Earnings for the purposes of basic earnings per share (RMB)	72,512,000	55,377,000
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>317,808,219</u>	<u>300,000,000</u>

Basic earnings per share for the year ended 31 December 2001 was arrived at by dividing the profit attributable to shareholders of that year by the pro-forma number of shares of 300,000,000 shares outstanding immediately prior to the public offerings.

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2002 RMB'000	2001 RMB'000
Wages and salaries	15,689	10,951
Retirement benefit schemes	2,086	2,952
Other social welfare costs	1,604	2,808
	<u>19,379</u>	<u>16,711</u>

11. DIRECTORS' EMOLUMENTS

	2002 RMB'000	2001 RMB'000
Directors' fees:		
Executive directors	—	—
Independent non— executive directors	—	—
Other emoluments:		
Salaries, other allowances and benefits in kind:		
Executive directors (<i>Note</i>)	7,316	1,856
Independent non-executive directors	117	62
Retirement benefit schemes:		
Executive directors	167	441
Independent non-executive directors	—	—
	<u>7,600</u>	<u>2,359</u>

Note:

This includes amount of approximately RMB880,000 (2001: RMB Nil) of operating lease rentals and discretionary bonus based on the Group's performance of RMB 3,800,000 (2001: Nil) payable to executive directors.

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

The emoluments of the directors were within the following bands:

	Number of directors 2002	2001
Nil — RMB1,000,000	5	6
RMB1,000,001 — RMB1,500,000	—	1
RMB1,500,001 — RMB2,000,000	—	—
RMB2,000,001 — RMB2,500,000	—	—
RMB2,500,001 — RMB3,000,000	1	—
RMB3,000,001 — RMB3,500,000	—	—
RMB3,500,001 — RMB4,000,000	—	—
RMB4,000,001 — RMB4,500,000	1	—
	<u>7</u>	<u>7</u>

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2001: three) were directors of the Company whose emoluments are included in the disclosures in Note 11 above. The emoluments of the remaining three (2001: two) individuals were as follows:

	2002 RMB'000	2001 RMB'000
Salaries and other benefits	1,630	732
Retirement benefits schemes	289	168
	<u>1,919</u>	<u>900</u>

The emoluments of these individuals were within the following band:

	Number of directors 2002	2001
Nil — RMB\$1,000,000	<u>3</u>	<u>2</u>

13. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP						
	Land use right RMB'000	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 31 December 2001	16,061	24,044	25,945	629	—	635	67,314
Additions	—	5,313	5,594	125	1,140	579	12,751
Transfer	—	225	—	—	—	(225)	—
At 31 December 2002	16,061	29,582	31,539	754	1,140	989	80,065
Accumulated depreciation							
At 31 December 2001	3,772	6,375	10,689	410	—	—	21,246
Charge for the year	430	911	2,529	74	228	—	4,172
At 31 December 2002	4,202	7,286	13,218	484	228	—	25,418
Net book value							
At 31 December 2002	11,859	22,296	18,321	270	912	989	54,647
At 31 December 2001	12,289	17,669	15,256	219	—	635	46,068

All of the Group's land and buildings are held in the PRC. The land use right covers a period of 30 years expiring in the year 2030.

As at 31 December 2002, buildings amounted to approximately RMB 2,901,000 (2001: Nil) were erected on a land provided by a related company rent free. (Note 26(e))

14. HELD-TO-MATURITY SECURITY

At 31 December 2002, the Group had a certificate of deposit amounted to HKD1,000,000 (RMB1,063,000) which carried interest at a fixed rate of 1.8% per annum and with a maturity period of two years.

The above certificate of deposit was charged to a bank to secure the banking facilities granted to the Company as mentioned in Note (21) below.

15. INVESTMENT IN A SUBSIDIARY

	THE COMPANY	
	2002	2001
	RMB'000	RMB'000
Unlisted shares, at cost	31,836	—
Amount due from a subsidiary	61,612	—
	<u>93,448</u>	<u>—</u>

The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiary at the time when it became a member 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 2002 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
			Direct holding	Indirect holding	
Kingweston Technology Limited ("Kingweston")	British Virgin Islands 6 January 2000	US\$2,500,000	100%	—	Investment holding
Yixing Xinxing Zirconium Company Limited (Note) ("Yixing Zirconium")	The People's Republic of China 7 June 2000	US\$10,500,000	—	100%	Research, development, manufacturing and sales of zirconium compounds
Century Dragon Investment Limited ("Century Dragon")	Hong Kong 5 June 2000	HK\$100	—	100%	Leasing of the Group's office premises in Hong Kong and provision of administrative services

15. INVESTMENT IN A SUBSIDIARY (Cont'd)

Note:

Yixing Zirconium is a foreign investment enterprise with an operating period of 30 years commencing on 7 June 2000. Registered capital of US\$2,500,000 was fully paid up on 21 August 2000. The registered capital was increased by US\$8,000,000 and was fully paid up on 6 November 2002.

16. INVENTORIES

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Raw materials	3,749	1,254
Work in progress	873	827
Finished goods	10,925	14,132
	15,547	16,213

At 31 December 2002, other than certain inventories with cost approximately RMB245,000 had been written down to realisable value of nil, all others were carried at cost. All inventories were carried at cost at 31 December 2001.

17. TAX RECEIVABLE

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
VAT receivable	18,193	22,694
VAT payable	(2,406)	(2,406)
	15,787	20,288

Tax receivable represents PRC value-added tax ("VAT") receivable on export sales.

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

18. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Due from a subsidiary (Note (23))	—	—	2,502	—
Trade receivable (Note)	22,051	31,355	—	—
Prepayments and other receivables	1,853	6,060	104	—
Dividend income receivable	—	—	14,864	—
	<u>23,904</u>	<u>37,415</u>	<u>17,470</u>	<u>—</u>

Note:

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

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
0 — 90 days	21,537	29,332
91 — 180 days	84	2,023
181 — 365 days	430	—
More than 1 year	—	—
	<u>22,051</u>	<u>31,355</u>

19. CASH AND BANK BALANCES

	THE GROUP	
	2002	2001
	RMB'000	RMB'000
Cash on hand	261	838
Cash in banks	172,727	84,234
	<u>172,988</u>	<u>85,072</u>

As at 31 December 2002, bank deposits of approximately RMB453,000 (2001: RMB415,000) were pledged for trade financing facilities granted by banks.

As at 31 December 2002, approximately RMB164,765,000 (2001: RMB84,148,000) 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. SHORT TERM BANK BORROWINGS

	THE GROUP	
	2002 RMB'000	2001 RMB'000
Wholly repayable within one year	—	14,900

21. BANKING FACILITIES

At 31 December 2002, the Group had banking facilities including bank overdraft of HKD500,000 and a corporate card of HKD600,000. The facilities are secured by the certificate of deposit amounted to HKD1,000,000 held by the bank in Hong Kong as mentioned in Note (14) above. The Group had no banking facilities for the year 2001.

At 31 December 2002, none of the above banking facilities were utilised.

22. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Due to a subsidiary (Note (23))	—	—	346	—
Due to directors (Note (23))	9,715	3,302	751	—
Due to a related company (Note (23), (26e))	—	14,588	—	—
Trade payable (Note a)	6,229	9,401	—	—
Notes payable (Note b)	1,466	14,188	—	—
Salary and welfare payables	13,346	11,679	—	—
Accruals and other payables	14,909	14,505	467	23
	45,665	67,663	1,564	23

Note a:

Aging analysis of trade payable is as follows:

	THE GROUP	
	2002 RMB'000	2001 RMB'000
0 — 90 days	2,021	8,986
91 — 180 days	418	225
181 — 365 days	695	190
More than 1 year	3,095	—
	6,229	9,401

Note b:

Notes payable represents notes issued by the Group counter-signed and guaranteed by the Group's banks to suppliers for presentation after one to three months and are secured by the bank deposits mentioned in Note(19) above.

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

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

24. SHARE CAPITAL

		Number of shares		Ordinary share capital			
		2002	2001	2002		2001	
				HKD	RMB	HKD	RMB
<i>Authorised:</i>							
At beginning of year		3,900,000	3,900,000	390,000	413,400	390,000	413,400
Increased during the year	(c)	996,100,000	—	99,610,000	105,586,600	—	—
At end of year		1,000,000,000	3,900,000	100,000,000	106,000,000	390,000	413,400
<i>Issued and fully paid:</i>							
At beginning of year	(a)	100	1	10	10	0.1	0.1
Shares issued	(b)	—	99	—	—	9.9	9.9
Shares issued pursuant to							
Group Reorganisation	(c)	299,999,900	—	29,999,990	31,836,290	—	—
Shares issued upon listing	(d)	100,000,000	—	10,000,000	10,613,400	—	—
At end of year		400,000,000	100	40,000,000	42,449,700	10.0	10.0

- (a) Upon incorporation, the Company issued 1 subscriber's share of HK\$0.1 at par for cash and was fully paid.
- (b) On 25 June 2001, the Company issued 99 shares of HK\$0.1 each at par for cash and were fully paid.
- (c) On 24 September 2002, a written resolution of the shareholders of the Company were passed pursuant to which:

The authorised share capital of the Company was increased from HK\$390,000, divided into 3,900,000 shares of HK\$0.1 each, to HK\$100,000,000 by the creation of 996,100,000 shares of HK\$0.1 each;

The directors were authorised to allot and issue an aggregate of 299,999,900 shares credited as fully paid, as to 284,999,905 of which to a shareholder, and as to 14,999,995 of which to a third party in exchange and as consideration for the acquisition of the entire issued share capital of Kingweston Technology Limited (incorporated in the British Virgin Islands) from Mr. Yang Xin Min.

- (d) On 28 October 2002, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited with 100,000,000 issued share capital by way of a placing for cash of HK\$ 0.8 per share. The excess of the issued price over the par value of the shares issued has been credited to the share premium account of the Company.

25. DEFERRED TAXATION

Neither the Group nor the Company had any material unprovided deferred taxation for the year and at the balance sheet date.

26. RELATED PARTIES TRANSACTIONS

During the year ended 31 December 2002, the Group had significant related party transactions as summarised below:

		2002 RMB'000	2001 RMB'000
Electricity supply from a related company	(a)	6,627	5,001
Steam supply from a related company	(a)	15,327	10,694
Coal purchase on behalf of a related company	(b)	2,735	7,938
Water supply from a related party	(c)	1,656	1,126

- (a) Yixing Zirconium and a related company has entered into an electricity and steam supply agreement dated 1 September 2000 and two supplemental agreements. Pursuant to these agreements, the supply of electricity and steam are conducted on commercial terms in the normal course of the electricity and steam supplying business of the related company.
- (b) Yixing Zirconium entered into a purchasing agreement with a related company, to purchase coal on its behalf at cost on 1 January 2001. The agreement ceased on 30 April 2002.
- (c) Water was supplied by Yixing City Xushe Water Supply Plant ("the Water Plant"), a collectively-owned enterprise in Xushe Town of Yixing City, to Yixing Zirconium, for manufacturing purposes. Purchase of water was conducted in the normal course of business at prices and terms similar to those charged to and contracted with other customers of the Water Plant. The Water Plant is a related party to the extent that Ms. Bao Xi Mei (being the Deputy General Manager of Yixing Zirconium and the spouse of Mr. Yang Xin Min, an executive director and the shareholder of the Company, is the legal representative of the Water Plant.
- (d) Pursuant to a trademark licensing agreement dated 12 July 2000 entered into between Yixing Zirconium and a related company, the latter has agreed to grant an exclusive license to the former or the Group to use the "Long Jing" trademarks in the PRC, the USA and Japan respectively, during their respective legally valid periods at nil consideration.
- (e) Certain buildings of Yixing Zirconium were erected on land with the respective land use right title belongs to a related company to the Group. The land is provided by the related company to Yixing Zirconium rent free since 1 November 2002. The land use right certificate granted to the related company covers a period of 50 years and will be expired in the year 2053. It is the intention of the directors of that related company to transfer the respective land use right title to Yixing Zirconium, for as long as the land use right has been originally granted to the related company.

26. RELATED PARTIES TRANSACTIONS (Cont'd)

- (f) The amount due to a related company represented balance due to the Predecessor Entity as defined in the Prospectus. The balance was interest free and repayable on demand.

	2002 RMB'000	2001 RMB'000
Amount due to a related company		
Beginning of year	14,588	29,115
Repayment of amount	(14,588)	(14,527)
At end of year	<u><u>—</u></u>	<u><u>14,588</u></u>

27. CAPITAL COMMITMENTS

	2002 RMB'000	2001 RMB'000
Contracted but not provided for purchases of plant and machineries	989	2,994
Authorised but not contracted for purchases of plant and machineries	<u><u>4,354</u></u>	<u><u>1,254</u></u>

28. OPERATING LEASE COMMITMENTS

At 31 December 2002, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2002 RMB'000	2001 RMB'000
Within 1 year	1,023	643
After 1 year but within 5 years	1,956	1,498
After 5 years	8,423	8,797
	<u><u>11,402</u></u>	<u><u>10,938</u></u>

29. RETIREMENT BENEFITS SCHEME

Prior to 1 December 2000, the Group did not have any pension or retirement benefits scheme for its employees in Hong Kong. With effect from 1 December 2000, the Group has set up a defined contribution retirement scheme ("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.

30. SHARE OPTION SCHEME

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

Options held by employees

Outstanding at 1 January 2002	Consideration	Exercise price	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Outstanding at 31 December 2002
—	HK\$1.00	HK\$0.87	2,000,000	—	—	2,000,000

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

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

31. APPROVAL OF ACCOUNTS

The financial statement were approved by the board of directors on 22 April 2003.