



Notes to the Interim Financial Statements

1. Basis of Preparation and Accounting Policies

The Interim Financial Statements have not been audited by the auditors of the Group but have been reviewed by the Group's Audit Committee.

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 of the Listing Rules of The Stock Exchange of Hong Kong Limited ("The Stock Exchange").

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 2002 except for the adoption of the SSAP 12 (Revised) "Income tax".

Deferred taxation

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

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profits as computed for taxation purposes and profits as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 (revised) represents a change in accounting policy, which has been applied retrospectively. However, the adoption of the SSAP 12 (revised) has no material effect on both financial periods as presented in this interim report.

2. Turnover, revenues and segment information

The Group is principally engaged in the manufacturing and sales of a wide range of zirconium chemicals.

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 rate applicable.

Revenue recognized during the periods are as follows:

	Unaudited	
	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Turnover	149,024	130,958
Other revenue - interest income	250	242
- other	203	—
Total revenue	<u>149,477</u>	<u>131,200</u>

Primary reporting format-business segment

The Group conducts its business within one business segment which is development and sale of zirconium products primarily in the PRC, no segment income statement has been prepared by the Group during the periods.

3. Depreciation

During the period, depreciation of approximately RMB2,311,000 (2002: RMB2,142,000) was charged to the cost of sales in respect of the Group's property, plant and equipment.

4. Taxation

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

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

	Unaudited	
	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Provision for PRC EIT	<u>5,102</u>	<u>—</u>

5. Dividends

No interim dividends have been proposed as the date of this report (2002: RMB7,000,000). The interim dividend provided for the period of 2002 represented profit appropriation paid by Yixing Zirconium to the then shareholder of its immediate holding company, Kingweston, prior to the listing of the Company on the main board of The Stock Exchange of Hong Kong Limited in 2002.

6. Earnings per share

Basic earnings per share is calculated based on the profit attributable to shareholders of RMB34,755,000 (2002: RMB33,218,000) and on the weighted average number of 400,000,000(2002: 300,000,000) shares in issue during the period.

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

Diluted earnings per share is not presented for the six months ended 30 June 2003 as there were no dilutive potential ordinary shares in existence during the period.

7. Property, Plant and Equipment

Unaudited
30 June 2003
RMB'000

Net book value, 1 January 2003	54,647
Additions	24,897
Depreciation	<u>(2,311)</u>
Net book value, 30 June 2003	<u><u>77,233</u></u>

8. Held-to-maturity Investment

There has been no diminution in value or in the held-to-maturity investment securities held. 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.

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

**9. Inventories**

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
Raw materials	5,724	3,749
Work in progress	873	873
Finished goods	14,671	10,925
	<u>21,268</u>	<u>15,547</u>

10. Trade and Other Receivables

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

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
0 - 90 days	19,595	21,537
91 - 180 days	—	84
181 - 365 days	—	430
More than 1 year	—	—
Trade receivable (a)	19,595	22,051
Escrow account for land (b)	18,000	—
Other receivable	1,908	1,853
	<u>39,503</u>	<u>23,904</u>

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

(b) As at 30 June 2003, amount RMB18,000,000 was paid to finance bureau as part of the total consideration of approximately RMB28,000,000 for the purchase of land (approximately RMB9,000,000) and buildings (approximately RMB19,000,000) in the PRC.



11. Trade and Other Payables

Aging analysis of trade payable is as follows:

	Unaudited 30 June 2003 RMB'000	Audited 31 December 2002 RMB'000
0 - 90 days	2,131	2,021
91 - 180 days	258	418
181 - 365 days	193	695
More than 1 year	389	3,095
Trade payable	2,971	6,229
Due to directors	5,321	9,715
Notes payable	—	1,466
Salary and welfare payable	11,772	13,346
Accruals and other payable	7,728	14,909
	27,792	45,665



12. Related Parties Transactions

Related party transactions are as follows:

		Unaudited Six months ended 30 June	
		2003	2002
		RMB'000	RMB'000
Electricity supply from a related company	(a)	4,286	3,340
Steam supply from a related company	(a)	9,489	7,725
Coal purchase on behalf of a related company	(b)	—	2,735
Water supply from a related party	(c)	<u>1,242</u>	<u>835</u>

- (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.
- (b) Yixing Zirconium entered into a purchasing agreement with a related company, to purchase coal on their behalf at cost on 1 January 2001. The agreement subsequently 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, 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 company 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.