

## Business Review

In the first half of 2003, the declined global economy and the outbreak of SARS had inevitably affected the sales of zirconium chemicals. Adhering to a pragmatic approach, the Group achieved a steady increase in turnover and profit before tax by 14% and 20% respectively as compared to the first half of 2002.

Diversified and integrated into the domestic market, apart from export mainly in the past, and in view of the strong demand in China, the Group captured 32% of its turnover in China for the first half of 2003, an increase of 8% as compared to the first half of 2002. The Group had also well placed its leadership position in existing and new markets by offering a competitive price for attracting more usage in current and new applications.

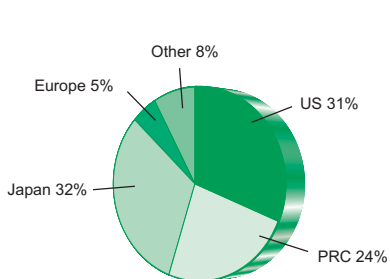
The Group's philosophy in good management, dedicated to research and development, product quality, streamlined process, shortened delivery time and benefits from economies of scales, the Group managed to reduce costs in various aspects. In 2003, the Group started to pay half of the preferential EIT benefits.

Huge demands, high profit margins and strong growth momentum in the upstream high-end products drove the Group for the continuous product mix adjustment from the upstream low-end products, the zirconium oxychloride, to further process refineries and its derivatives, zirconium oxides and electronic ceramic materials.

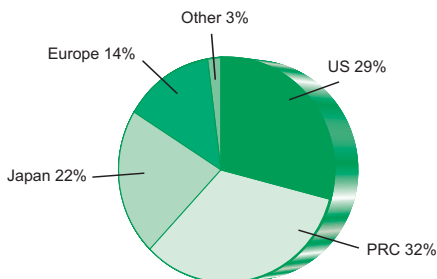
Moving forward to downstream products, the Group focused on electronic ceramic materials such as PTC electronic heating components, and set up new plants by utilizing internally generated cash and commenced production in this June. PTC electronic heating components are endothermic, energy saving, environmental friendly and safe. As a key component to heat sensors used in modernized electrical appliances today, this new material will fully replace conventional chrome-nickel heating elements used in high-end electrical products.



### Turnover Analysis by Geographical Region

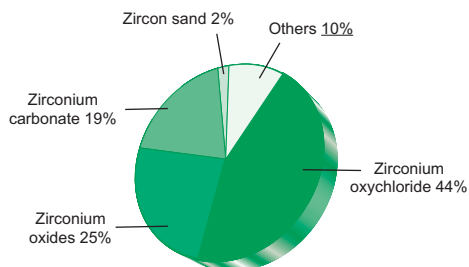


2002

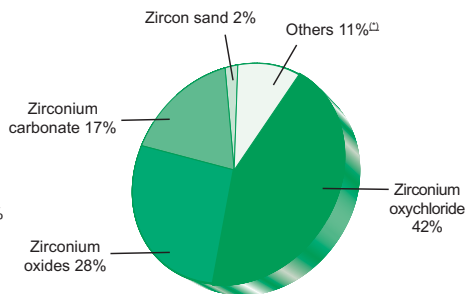


2003

### Turnover Analysis by Product Category



2002



2003

- (\*) The production of PTC electronic heating components commenced in 2003, with turnover amounting to RMB 60,143.