



# DIRECTORS' REPORT

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the research, development, manufacture and sale of a wide range of zirconium chemicals, electronic materials (with zirconium), electronic ceramics, new energy materials and rechargeable batteries.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 (the "Year") are set out in the consolidated income statement on page 27.

The Board has recommended payment of a final dividend of HK3.3 cents per ordinary share for the Year.

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 20 May 2005, such dividend will be paid on 27 May 2005 to shareholders whose names appear in the register of members of the Company on 20 May 2005.

The register of members of the Company will be closed from 18 May 2005 to 20 May 2005, 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 20 May 2005, 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 17 May 2005.

## FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 4.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the Year 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 are set out in note 23 to the financial statements.

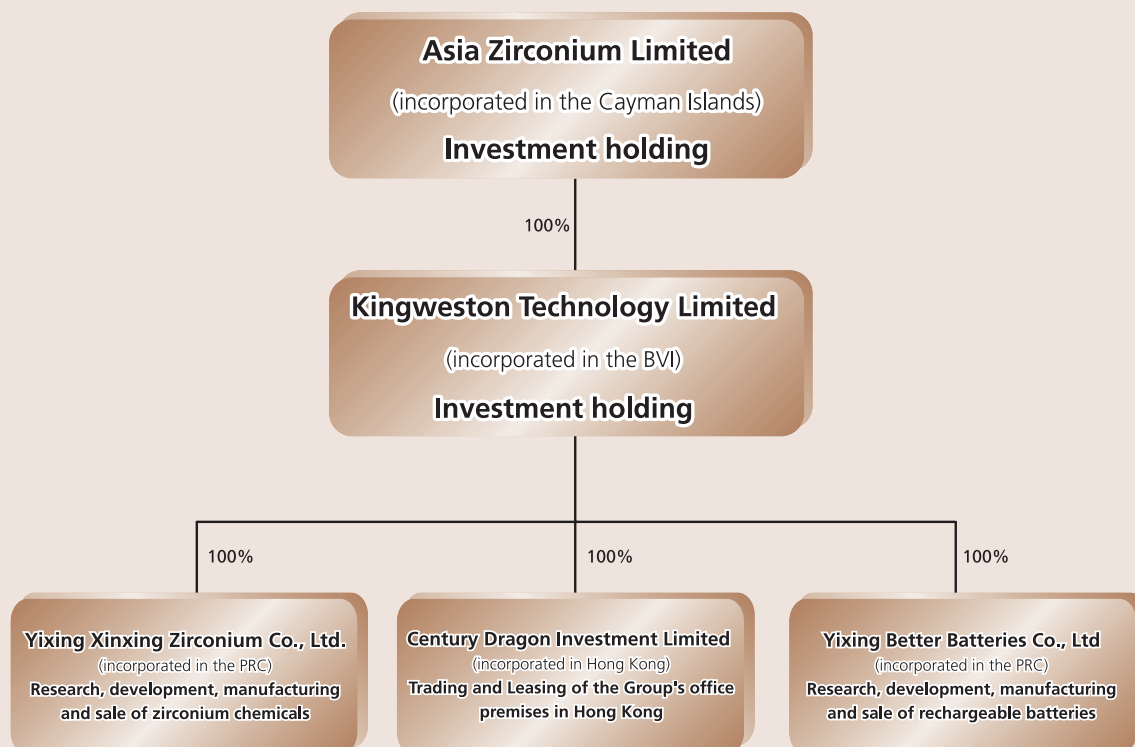


Electronic materials testing equipment

## RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in consolidated statement of changes in equity on pages 30 to 31.

## GROUP STRUCTURE



## DIRECTORS

The Directors at the date of this report are shown below. Their biographies are set out on pages 15 to 16.

### Executive Directors

Mr. Yang Xin Min, Chairman and Managing Director  
 Ms. Huang Yue Qin  
 Mr. Zhou Quan  
 Mr. Li Fu Ping

### Independent Non-Executive Directors

Mr. Gary Cheng Faat Ting  
 Mr. Guo Jing Mao  
 Mr. Shi You Chun (appointed on 16 September 2004)

Each of the above Directors, except for Mr. Shi You Chun, has 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' REPORT *(Continued)*

In accordance with Article 86 of the Company's Articles of Association, Mr. Shi You Chun was appointed by the Board of Directors as an Independent Non-Executive Director with effect from 16 September 2004. Mr. Shi has entered into a service contract with the Company for an initial term of two years.

The Company has received from each of the Independent Non-Executive Directors a confirmation letter of his independence pursuant to paragraph 12B of Appendix 16 of the Listing Rules and considers each of the Independent Non-Executive Directors is independent.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2004, the interests of the Directors and the chief executive of the Company in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is 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 to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Nature of Interest	Number of Shares	Percentage of Total Share Capital
Yang Xin Min	Beneficial	Personal	320,970,946	63.66%

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2004, so far as was known to the Directors and the chief executive of the Company, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

Name of Shareholder	Number of Shares	Percentage of Total Share Capital
Yang Xin Min	320,970,946	63.66%
Value Partners Limited	42,112,000	8.35%

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors 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 or during the Year.

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 OPTIONS GRANTED PURSUANT TO THE SHARE OPTION SCHEME

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the "Scheme") was approved and adopted and, 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.

Details of outstanding Options which have been granted under the Scheme at the beginning and at the end of 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 December 2004
				Outstanding as at 1 January 2004	Granted during the Year	Exercised during the Year	
Wong Hoi Yan, Audrey (Note)	1 November 2002	1 May 2003 to 13 August 2004	HK\$0.87	2,000,000	—	2,000,000	—

Note: Ms. Wong Hoi Yan, Audrey had resigned with effect from 13 May 2004.

## CONNECTED TRANSACTIONS

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

### 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., Ltd. ("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.



## DIRECTORS' REPORT *(Continued)*

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 electricity and steam and acquisition of a thermal power plant**

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 electricity and steam annual expenses will not exceed 10% of the Group's total turnover in each financial 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 and auditors 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;
- 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; and
- the transactions entered into during the Year do not exceed, in aggregate, 10% of the Group's total turnover in the Year.

On 13 February 2004, Yixing Zirconium entered into an acquisition agreement with Xinxing Chemicals Group to acquire the thermal power plant and the related facilities (the "Acquisition"), which supplied the electricity and steam as mentioned above, at a consideration of RMB77,780,000, which was determined on arm's length negotiations with reference to the valuation reports prepared by independent valuers. The consideration was satisfied by the issue of 55,170,946 shares by the Company to Mr. Yang Xin Min.

## **Supply of electricity and steam and acquisition of a thermal power plant** *(continued)*

Pursuant to the Listing Rules, Xinxing Chemicals Group is a connected person of the Group and the Acquisition constituted a connected transaction of the Group. Details of the Acquisition agreement were set out in the Group's press announcement dated 17 February 2004 and the circular dated 10 March 2004.

The Acquisition was conducted in the ordinary and usual course of business of the Group, and the terms of the Acquisition agreement were entered on arm's length basis. As the Acquisition will reduce production cost, ensure stable and continuous electricity and steam supply to the Group's production facilities, thus enhancing the Group's earning capacity in the long run, the Directors and Independent Non-Executive Directors considered that the Acquisition was fair and reasonable and in the interests of the Group.

Upon the approval of the Acquisition at the extraordinary general meeting held on 29 March 2004, the ongoing connected transaction in respect of the electricity and steam supply was ceased.

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.

## **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 December 2004, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 14% and 47% 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 21% and 44% of the Group's total purchases for the 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), 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 the Year.



Batteries Exhibition in Shanghai



# **DIRECTORS' REPORT** *(Continued)*

## **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 assets 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 Listing Rules has been complied with by the Company throughout the Year.

### **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 Institute of Certified Public 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 three independent non-executive directors, namely Mr. Gary Cheng Faat Ting, Mr. Guo Jing Mao and Mr. Shi You Chun, with Mr. Gary Cheng Faat Ting being Chairman of the Audit Committee.

## **DONATIONS**

For the year ended 31 December 2004, 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 Year.

## **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.



## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the Year.

## POST BALANCE SHEET DATE EVENT

There was no significant post balance sheet date event for the Year.

## AUDITORS

RSM Nelson Wheeler retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as the Company's auditors is to be proposed at the forthcoming annual general meeting.

By order of the Board

**Huang Yue Qin**

*Executive Director*

8 April 2005