

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004



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, Cap22 (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.

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

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. These financial statements also comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance.

The Hong Kong Institute of Certified Public Accountants had issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have significant impact on its results of operations and financial position.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2004.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

Subsidiaries are companies in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses, if necessary. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) 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.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) 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

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

(f) 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.

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 rights	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 consolidated income statement based on the net disposal proceeds less the carrying amount of the assets at the date of disposal.

(g) 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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) **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 recognised 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 estimate of its recoverable amount, so that the increased 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.

(i) **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.

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

(j) **Inventories**

Inventories are carried at the lower of cost and net realisable 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.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(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 consolidated 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 income statement items are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(m) Taxation

Income tax expense represented the sum of the tax currently payable and deferred tax.

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

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 financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are not recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(n) Intangible assets

(i) Technical know-how

Expenditure on acquired technical know-how is capitalised and amortised using the straight line method over the useful lives of five years from the date when the technical know-how is available for use.

(ii) 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 amortised on a straight-line basis over its useful life, which is usually no more than five years.

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 costs capitalised during the financial year.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

(r) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as other liabilities and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(s) 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 available to all employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as 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 independently administered fund.

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

(t) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the research, development, manufacturing and sales of zirconium compounds, electronic materials, electronic ceramics, new energy materials and batteries. Revenues recognised during the year are as follows:

	2004 RMB'000	2003 RMB'000
Turnover	357,218	299,720
Other revenues		
- government grants received related to technical invention	700	—
- interest income	344	775
- others	1,727	366
	2,771	1,141
	359,989	300,861

Primary reporting format - geographical segments

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 results. Segment revenue and segment results are presented base on geographical location of customers.

Secondary reporting format - business segments

The Group's business is mainly categorised into four business segments:

- zirconium compounds;
- electronic materials and electronic ceramics;
- new energy materials; and
- rechargeable batteries.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

(i) Primary reporting format - geographical segments

For the year ended 31 December 2004

	Japan <i>RMB'000</i>	The USA <i>RMB'000</i>	The PRC <i>RMB'000</i>	The Netherlands <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	59,926	75,342	152,894	34,371	34,685	357,218
Segment results	12,123	23,500	51,124	6,465	8,946	102,158

For the year ended 31 December 2003

	Japan <i>RMB'000</i>	The USA <i>RMB'000</i>	The PRC <i>RMB'000</i>	The Netherlands <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	60,281	79,084	107,144	26,870	26,341	299,720
Segment results	12,741	27,809	42,341	7,156	7,823	97,870

(ii) Secondary reporting format - business segments

For the year ended 31 December 2004

	Turnover <i>RMB'000</i>	Profit/ (Loss) from operations <i>RMB'000</i>	Carrying amount of segment assets <i>RMB'000</i>	Capital expenditure <i>RMB'000</i>
Zirconium compounds	306,902	93,418	169,957	47,362
Electronic materials and electronic ceramics	785	117	18,937	7,158
New energy materials	48,643	8,978	61,635	4,114
Rechargeable batteries	888	(355)	52,642	26,964
	<u>357,218</u>	<u>102,158</u>	<u>303,171</u>	<u>85,598</u>
Unallocated assets			225,112	78,916
Interest income		344		
Unallocated costs		(27,620)		
		<u>74,882</u>	<u>528,283</u>	<u>164,514</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

(ii) Secondary reporting format - business segments *(continued)*

For the year ended 31 December 2003

	Turnover <i>RMB'000</i>	Profit from operations <i>RMB'000</i>	Carrying amount of segment assets <i>RMB'000</i>	Capital expenditure <i>RMB'000</i>
Zirconium compounds	289,963	94,904	106,666	19,023
Electronic materials and electronic ceramics	764	54	64,985*	48,503*
New energy materials	8,993	2,912		
	<u>299,720</u>	<u>97,870</u>	<u>171,651</u>	<u>67,526</u>
Unallocated assets			166,573	7,884
Interest income		775		
Unallocated costs		<u>(22,132)</u>		
		<u>76,513</u>	<u>338,224</u>	<u>75,410</u>

* For year 2003, electronic materials, electronic ceramics and new energy materials shared a common pool of assets and capital expenditure.

4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Auditors' remuneration	603	542
Depreciation	10,780	5,311
Amortisation of intangible assets	1,000	500
Exchange losses	23	254
Research and development costs	4,675	3,434
Operating lease of land and buildings	607	799
Provision for inventories obsolescence	2,000	—
Staff costs (including directors' emoluments) <i>(Note 10)</i>	<u>17,124</u>	<u>14,774</u>



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

5. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	—	4
Other loans	114	—
	114	4

6. TAXATION

The amount of taxation charged to the consolidated income statement represents:

	2004 RMB'000	2003 RMB'000
Hong Kong profits tax	—	—
PRC Enterprise Income Tax	10,625	10,218
	10,625	10,218

- (a) No provision for Hong Kong profit tax has been made in the financial statements as the Group had no assessable profit in Hong Kong for the year (2003: Nil).

Yixing Xinxing Zirconium Company Limited ("Yixing Zirconium") and Yixing Better Batteries Co., Ltd. ("Better Batteries") are wholly-owned subsidiaries of the Company incorporated in the PRC, and therefore subject to PRC Enterprise Income Tax ("EIT") at local statutory rate. Pursuant to the relevant income tax laws in the PRC, Yixing Zirconium and Better Batteries are entitled to 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 EIT for Yixing Zirconium is 12% (being 50% of the standard rate for foreign investment enterprises located in coastal open economic regions). As a result, the provision for EIT is calculated at 12% on the assessable profit for the year. No EIT provision is made for Better Batteries as it had no assessable profit for the year.

- (b) Deferred taxation

As at 31 December 2004, no provision (2003: Nil) for deferred tax has been recognised in the financial statements as there have been no material temporary differences for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



6. TAXATION *(continued)*

- (c) As the Group's major operation and income were located in the PRC, the applicable tax rate to the Group was the tax rate of 12% during the year applicable to the PRC subsidiary as stated in (a) above.

	2004		2003	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	74,768		76,509	
Tax at the applicable tax rate of 12%	8,972	12.0	9,181	12.0
Tax effect of expenses / income that are not deductible / taxable in determining taxable profit	1,388	1.9	808	1.1
Tax effect of unrecognised tax losses	265	0.3	229	0.3
Tax expense and effective tax rate for the year	10,625	14.2	10,218	13.4

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of approximately RMB2,912,000 (2003: RMB2,033,000) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Interim, paid	—	—
Final, proposed — HK3.3 cents per ordinary share	17,700	19,800
	17,700	19,800

At a meeting of the Board held on 8 April 2005, a final dividend of HK3.3 cents (2003: HK3.7 cents) 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 reserves for the year ending 31 December 2005.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

9. EARNINGS PER SHARE

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

	2004	2003
Earnings		
Earnings for the purposes of basic earnings per share and diluted earnings per share (RMB)	64,143,000	66,291,000
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	483,422,414	400,000,000
Effect of dilutive potential ordinary shares — share options	—	408,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	483,422,414	400,408,000

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2004 RMB'000	2003 RMB'000
Wages and salaries	15,129	11,360
Retirement benefit costs	1,057	2,161
Other social welfare costs	938	1,253
	17,124	14,774

11. DIRECTORS' EMOLUMENTS

	2004 RMB'000	2003 RMB'000
Directors' fees:		
Executive directors	—	—
Independent non-executive directors	209	117
Other emoluments:		
Salaries, other allowances and benefits in kind		
Executive directors	2,541	2,584
Independent non-executive directors	—	—
Retirement benefit costs		
Executive directors	16	122
Independent non-executive directors	—	—
	2,766	2,823

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



11. DIRECTORS' EMOLUMENTS *(continued)*

Note:

No operating lease rentals (2003: RMB658,000) and no discretionary bonus (2003: Nil) was payable to any executive director.

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

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil — RMB1,000,000	6	6
RMB1,000,001 — RMB1,500,000	—	—
RMB1,500,001 — RMB2,000,000	1	—
RMB2,000,001 — RMB2,500,000	—	—
RMB2,500,001 — RMB3,000,000	—	1
	<u>7</u>	<u>7</u>

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2003: four) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2003: one) individuals were as follows:

	2004 RMB'000	2003 RMB'000
Salaries and other benefits	597	533
Retirement benefits costs	13	13
	<u>610</u>	<u>546</u>

The emoluments of these individuals were within the following band:

	Number of employees	
	2004	2003
Nil - RMB\$1,000,000	<u>2</u>	<u>1</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	Land use rights	Buildings	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2004	43,224	42,595	60,063	842	2,412	6,339	155,475
Additions	18,720	6,956	105,184	572	—	33,082	164,514
Transfer	—	8,767	143	—	—	(8,910)	—
At 31 December 2004	61,944	58,318	165,390	1,414	2,412	30,511	319,989
Accumulated depreciation							
At 1 January 2004	4,634	8,904	16,159	566	466	—	30,729
Charge for the year	1,162	1,981	6,958	211	468	—	10,780
At 31 December 2004	5,796	10,885	23,117	777	934	—	41,509
Net book value							
At 31 December 2004	56,148	47,433	142,273	637	1,478	30,511	278,480
At 31 December 2003	38,590	33,691	43,904	276	1,946	6,339	124,746

All of the Group's land and buildings are held in the PRC. The land use rights amounted to approximately RMB26,534,000 and RMB29,614,000 covers a period of 50 years expiring in the year 2053 and 2054 respectively.

14. INTANGIBLE ASSETS

	The Group Technical know-how RMB'000
Cost	
At 1 January 2004 and 31 December 2004	5,000
Accumulated amortisation	
At 1 January 2004	500
Charge for the year	1,000
At 31 December 2004	1,500
Net book value	
At 31 December 2004	3,500
At 31 December 2003	4,500

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



15. INVESTMENT IN A SUBSIDIARY

	The Company	
	2004	2003
	RMB'000	RMB'000
Unlisted shares	31,836	31,836
Amount due from a subsidiary	70,679	60,129
	102,515	91,965

The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members 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 2004 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 and place of operation
			Direct holding	Indirect holding	
Kingweston Technology Limited ("Kingweston")	British Virgin Islands 6 January 2000	US\$2,500,000	100%	—	Investment holding in Hong Kong
Yixing Xinxing Zirconium Company Limited ("Yixing Zirconium") (Note)	The People's Republic of China 7 June 2000	US\$10,500,000	—	100%	Research, development, manufacturing and sale of zirconium compounds, electronic materials, electronic ceramics and new energy materials in the PRC
Century Dragon Investment Limited ("Century Dragon")	Hong Kong 5 June 2000	HK\$100	—	100%	Leasing of the Group's office premises in Hong Kong, provision of administrative services and general trading in Hong Kong
Yixing Better Batteries Co., Ltd. ("Better Batteries") (Note)	The People's Republic of China 5 January 2004	US\$1,200,000	—	100%	Research, development, manufacturing and sale of rechargeable batteries

Note: Yixing Zirconium and Better Batteries are foreign investment enterprises with an operating period of 30 years commencing on 7 June 2000 and 5 January 2004, respectively.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

16. INVENTORIES

	The Group	
	2004	2003
	RMB'000	RMB'000
Raw materials	9,175	3,874
Work in progress	7,326	973
Finished goods	15,515	13,691
	32,016	18,538

All the inventories were carried at cost.

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	HRMB'000
Due from a director (Note (18))	—	—	327	302
Due from a subsidiary (Note (22))	—	—	92,927	4,500
Trade receivables (Note)	37,085	26,089	—	—
Prepayments and other receivables	59,802	13,460	194	17
Dividend income receivable	—	—	14,894	14,917
	96,887	39,549	108,342	19,736

Note:

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

	The Group	
	2004	2003
	RMB'000	RMB'000
0 - 90 days	32,723	24,135
91 - 180 days	4,362	1,734
181 - 365 days	—	113
More than 1 year	—	107
	37,085	26,089

Normally, 30 to 60 days credit term is granted to local customers in the PRC and 60 to 90 days credit term is granted to overseas customers.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



18. AMOUNT DUE FROM A DIRECTOR

	The Company
	<i>RMB'000</i>
Name	
Mr. Yang Xin Min	
Amount outstanding	
At 31 December 2004	327
At 31 December 2003	302
Maximum amount outstanding during the year	
2004	2,435
2003	1,418

The amount due from a director is unsecured, interest free and repayable on demand.

19. CASH AND BANK BALANCES

	The Group	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Cash on hand	4,672	195
Cash in banks	109,890	139,470
	114,562	139,665

As at 31 December 2004, approximately RMB105,447,000 (2003: RMB138,212,000) 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. VALUE-ADDED TAX PAYABLE / (RECEIVABLE)

	The Group	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
VAT receivable	(1,069)	(12,566)
VAT payable	4,393	2,407
	3,324	(10,159)

The Group's sales of manufactured products are subject to value-added tax ("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.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Due to a subsidiary (Note (22))	—	—	—	9,457
Due to a related company (Note (22))	1,138	—	—	—
Due to directors (Note (22))	5,191	8,682	61	137
Trade payables (Note)	10,442	6,373	—	—
Notes payable	323	—	—	—
Salary and welfare payables	14,877	15,287	—	—
Accruals and other payables	13,413	11,160	722	459
	45,384	41,502	783	10,053

Note:

Aging analysis of trade payables is as follows:

	The Group	
	2004	2003
	RMB'000	RMB'000
0 - 90 days	8,109	4,643
91 - 180 days	418	927
181 - 365 days	707	299
More than 1 year	1,208	504
	10,442	6,373

22. AMOUNTS DUE FROM/(TO) SUBSIDIARIES / A RELATED COMPANY / DIRECTORS

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2004



23. SHARE CAPITAL

	Number of shares		Ordinary share capital			
	2004	2003	2004	2003	2004	2003
			HK\$	RMB	HK\$	RMB
Ordinary shares of HK\$0.1 each:						
Authorised:	1,000,000,000	1,000,000,000	100,000,000	106,000,000	100,000,000	106,000,000
Issued and fully paid:						
At beginning of year	400,000,000	400,000,000	40,000,000	42,449,700	40,000,000	42,449,700
Issue of shares upon placing	47,000,000	—	4,700,000	4,998,928	—	—
Issue of shares upon acquisition of a thermal power plant	55,170,946	—	5,517,095	5,867,992	—	—
Exercise of share options	2,000,000	—	200,000	212,201	—	—
At end of year	504,170,946	400,000,000	50,417,095	53,528,821	40,000,000	42,449,700

Details of changes in the share capital of the Company are as follows:

- Pursuant to a placing agreement dated 3 February 2004 entered into between Mr. Yang Xin Min ("Mr. Yang"), a substantial shareholder of the Company, and a placing agent, 47,000,000 existing ordinary shares of HK\$0.1 each in the Company were placed to independent investors at a price of HK\$1.17 per share. Upon completion of the placement of shares and pursuant to a subscription agreement entered into between the Company and Mr. Yang, Mr. Yang subscribed for 47,000,000 new ordinary shares of HK\$0.1 each in the Company at a price of HK\$1.17 per share.
- On 13 February 2004, Yixing Zirconium, a wholly-owned subsidiary of the Group, entered into an acquisition agreement (the "Agreement") with Jiangsu Xinxing Chemicals Group Corporation ("Xinxing Chemicals Group"), a privately-owned enterprise wholly owned by Mr. Yang Xin Min, a substantial shareholder and director of the Company. Pursuant to the Agreement, Yixing Zirconium agreed to acquire the thermal power plant and related facilities from Xinxing Chemicals Group at a consideration of RMB77,780,000, which was satisfied by the issue of 55,170,946 ordinary shares of HK\$0.1 each of the Company to Mr. Yang Xin Min.
- During the year, 2,000,000 ordinary shares were issued at HK\$0.87 per share as a result of the exercise of share options of the Company.

24. CAPITAL COMMITMENTS

	2004	2003
	RMB'000	RMB'000
Contracted but not provided for		
— purchases of plant and machineries	5,637	2,495
— construction in progress	4,285	4,330



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004

25. RELATED PARTIES TRANSACTIONS

During the year ended 31 December 2004, the Group had significant related party transactions as summarised below:

		2004 RMB'000	2003 RMB'000
Electricity supply from a related company	(a)	2,306	8,209
Steam supply from a related company	(a)	4,351	17,993
Water supply from a related party	(b)	2,116	2,705
Purchase of a new plant from a related company		—	5,180
Purchase of a thermal power plant from a related company	(d)	77,780	—

- (a) Yixing Zirconium and Jiangsu Xinxing Chemicals Group Corporation ("Xinxing Chemicals Group"), a privately-owned enterprise wholly owned by Mr. Yang Xin Min who is the substantial shareholder and director of the 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) 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 spouse of Mr. Yang Xin Min), is the legal representative of the Water Plant.
- (c) 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 respectively legally valid periods at nil consideration.
- (d) Yixing Zirconium entered into an acquisition agreement with Xinxing Chemicals Group on 13 February 2004 to acquire a thermal power plant and the related facilities 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 ordinary shares by the Company to Mr. Yang Xin Min.

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 transaction was fair and reasonable and in the interest of the Group. Details of the acquisition agreement were set out in the Group's press announcement dated 17 February 2004 and circular dated 10 March 2004.

26. BANKING FACILITIES

At 31 December 2004, the Group had unsecured banking facilities of HK\$400,000 in the form of corporate credit cards and US\$3,800,000 in the form of trade financing facilities.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2004



27. OPERATING LEASE COMMITMENTS

At 31 December 2004, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 RMB'000	2003 RMB'000
Within one year	433	614
After one year but within five years	253	1,497
After five years	—	8,049
	686	10,160

28. 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, the "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.

29. 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. No share option is granted during the year or outstanding at year end.

Details of outstanding share 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	Outstanding as at 1 January 2004	Number of share options		Outstanding as at 31 December 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.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 8 April 2005.