



# CHINA ZIRCONIUM LIMITED

## 中國鋯業有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0395)

### 2007 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of China Zirconium Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 together with the comparative figures. The condensed consolidated interim financial statements (the “Interim Financial Statements”) have not been audited, but have been reviewed by the Company’s Audit Committee.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		Unaudited	
		Six months ended 30 June	
		2007	2006
	Notes	RMB'000	RMB'000
Turnover	2	274,954	224,323
Cost of sales		<u>(207,272)</u>	<u>(165,204)</u>
Gross profit		67,682	59,119
Other income	2	1,213	1,026
Distribution costs		(6,596)	(4,908)
Administrative expenses		(11,482)	(7,438)
Other operating expenses		<u>(250)</u>	<u>(2,525)</u>
Profit from operations	3	50,567	45,274
Finance costs		<u>(627)</u>	<u>(389)</u>
Profit before taxation		49,940	44,885
Taxation	4	<u>(12,787)</u>	<u>(12,276)</u>
Profit attributable to shareholders		<u><u>37,153</u></u>	<u><u>32,609</u></u>

Dividends	5	<u>—</u>	<u>—</u>
Basic earnings per share (RMB)	6	<u>0.063</u>	<u>0.065</u>
Diluted earnings per share (RMB)	6	<u>N/A</u>	<u>N/A</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

		<b>Unaudited 30 June 2007 RMB'000</b>	<b>Audited 31 December 2006 RMB'000</b>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment		<b>256,508</b>	251,104
Prepaid land lease payments		<b>51,644</b>	52,244
Intangible assets		<b>1,159</b>	1,459
Prepayments and deposits		<b>12,051</b>	12,051
		<u><b>321,362</b></u>	<u>316,858</u>
<b>Current assets</b>			
Inventories		<b>64,451</b>	53,467
Trade receivables	7	<b>68,214</b>	52,086
Prepayments, deposits and other receivables		<b>85,459</b>	68,054
Prepaid land lease payments		<b>1,351</b>	1,351
Bank and cash balances		<b>320,734</b>	165,718
		<u><b>540,209</b></u>	<u>340,676</u>
<b>Current liabilities</b>			
Trade and bill payables	8	<b>21,606</b>	17,901
Accruals and other payables		<b>32,874</b>	45,464
Interest-bearing borrowings		<b>25,375</b>	26,694
Tax payable		<b>35,120</b>	30,343
		<u><b>114,975</b></u>	<u>120,402</u>
<b>Net current assets</b>		<u><b>425,234</b></u>	<u>220,274</u>
<b>NET ASSETS</b>		<u><b>746,596</b></u>	<u>537,132</u>

## Capital and reserves

Share capital	74,271	53,529
Other reserves	356,204	204,635
Retained profits	316,121	278,968
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<b>TOTAL EQUITY</b>	<b>746,596</b>	<b>537,132</b>
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## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 1. Basis of Preparation and Accounting Policies

The Interim Financial Statements are prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on 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 preparation of the Group’s financial statements for the year ended 31 December 2006.

### 2. Turnover, Other Income 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 rechargeable batteries.

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 accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Revenue recognised during the period are as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Turnover	<b>274,954</b>	224,323
Other income – interest income	<b>489</b>	172
– other	<b>724</b>	854
	<u><b>276,167</b></u>	<u>225,349</u>

**(i) Primary reporting format — geographical segments**

For the six months ended 30 June 2007 (Unaudited)

	<b>Japan</b>	<b>The USA</b>	<b>The PRC</b>	<b>The</b>	<b>Others</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>Netherlands</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>RMB'000</i>		
Segment revenue	<u><b>22,137</b></u>	<u><b>87,622</b></u>	<u><b>114,781</b></u>	<u><b>22,406</b></u>	<u><b>28,008</b></u>	<u><b>274,954</b></u>
Segment results	<u><b>3,504</b></u>	<u><b>21,176</b></u>	<u><b>29,167</b></u>	<u><b>3,717</b></u>	<u><b>10,118</b></u>	<u><b>67,682</b></u>

For the six months ended 30 June 2006 (Unaudited)

	<b>Japan</b>	<b>The USA</b>	<b>The PRC</b>	<b>The</b>	<b>Others</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>Netherlands</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>RMB'000</i>		
Segment revenue	<u><b>13,625</b></u>	<u><b>64,468</b></u>	<u><b>98,899</b></u>	<u><b>29,805</b></u>	<u><b>17,526</b></u>	<u><b>224,323</b></u>
Segment results	<u><b>2,716</b></u>	<u><b>15,467</b></u>	<u><b>29,635</b></u>	<u><b>6,111</b></u>	<u><b>5,190</b></u>	<u><b>59,119</b></u>

## (ii) Secondary reporting format — business segments

For the six months ended 30 June 2007 (Unaudited)

	Zirconium compounds <i>RMB'000</i>	Electronic materials and electronic ceramics <i>RMB'000</i>	New energy materials <i>RMB'000</i>	Batteries <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	<u>255,064</u>	<u>108</u>	<u>12,885</u>	<u>6,897</u>	<u>274,954</u>
Segment results	<u>64,400</u>	<u>13</u>	<u>2,584</u>	<u>685</u>	<u>67,682</u>

For the six months ended 30 June 2006 (Unaudited)

	Zirconium compounds <i>RMB'000</i>	Electronic materials and electronic ceramics <i>RMB'000</i>	New energy materials <i>RMB'000</i>	Batteries <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	<u>202,846</u>	<u>1,593</u>	<u>15,727</u>	<u>4,157</u>	<u>224,323</u>
Segment results	<u>55,889</u>	<u>543</u>	<u>2,358</u>	<u>329</u>	<u>59,119</u>

### 3. Depreciation and Amortisation

During the period, depreciation and amortisation of approximately RMB7,441,000 and RMB600,000 (2006: RMB8,264,000 and RMB600,000) were charged to the accounts in respect of the Group's property, plant and equipment and land use rights, respectively.

### 4. Taxation

Tax expense in the condensed consolidated income statement comprised:

	Unaudited Six months ended 30 June	
	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Provision for PRC EIT	<u>12,787</u>	<u>12,276</u>

- (a) 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”) 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. Started from January 2006, the applicable EIT rate for Yixing Zirconium is 24%. No EIT provision is made for Better Batteries as it has no assessable profit in the current period.

- (b) As at 30 June 2007, no provision for deferred tax (2006: Nil) has been recognised in the financial statements as there have been no material temporary differences for tax purposes.

## 5. Dividends

No interim dividends have been proposed as at the date of this report (2006: Nil).

## 6. Earnings Per Share

Basic earnings per share is calculated based on the profit attributable to shareholders of RMB37,153,000 (2006: RMB32,609,000) and on the weighted average number of 587,317,355 (2006: 504,170,946) shares in issue during the period.

Diluted earnings per share are not presented for the six months ended 30 June 2007 and 30 June 2006 as there were no dilutive potential ordinary shares in existence as at the respective period end.

## 7. Trade Receivables

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

	<b>Unaudited</b> <b>30 June</b> <b>2007</b> <b>RMB'000</b>	Audited 31 December 2006 <b>RMB'000</b>
0 – 90 days	<b>46,184</b>	48,857
91 – 180 days	<b>21,104</b>	1,763
181 – 365 days	<b>619</b>	749
More than 1 year	<b>307</b>	717
	<hr/> <b>68,214</b> <hr/>	<hr/> 52,086 <hr/>

*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.*

## 8. Trade and Bill Payables

Aging analysis of trade and bill payables is as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2007</b> <i>RMB'000</i>	Audited 31 December 2006 <i>RMB'000</i>
0 – 90 days	<b>14,631</b>	12,653
91 – 180 days	<b>2,303</b>	1,080
181 – 365 days	<b>2,650</b>	871
More than 1 year	<b>2,022</b>	3,297
	<hr/> <b>21,606</b> <hr/>	<hr/> 17,901 <hr/>

## REVIEW OF RESULTS AND OPERATIONS

During the six months ended 30 June 2007, the Group's sales increased 23% to RMB274,954,000 from RMB224,323,000 for the same period of 2006. The sales growth in the first half of 2007 was primarily attributable to increased sales of zirconium chemicals. The zirconium segment revenue has increased by 26% to RMB255,064,000 and the segment result has also increased by 15% to RMB64,400,000. The Group continued to see a strong market for zirconium chemical products in current period and is expecting the growth to sustain. Gross profit of the Group for the first six months of 2007 was RMB67,682,000, with a gross margin of 25%, compared to gross profit for the same period of 2006 of RMB59,119,000 with a gross margin of 26%. The decrease in gross margin was mainly resulted from the fierce price competition in the zirconium chemical market.

Revenue contributed by the new energy materials segment during the period under review was RMB12,885,000, represented a 18% drop from same period last year. The segment gross margin has improved from 15% to 20% in the current period, notwithstanding that the prices of raw materials for this segment remained at a relatively high level. The Group grasped the chance in taking advantage of the raw materials price fluctuation and hence resulted in a satisfactory improvement in the segment's gross margin.

The Group's batteries business continued to improve in the current period. Sales of batteries increased from RMB4,157,000 to RMB6,897,000 and the gross margin also improved from 8% to 10%. The Group is allocating considerable resources to develop the market for the new high temperature battery with zirconium additive. It is expected that the successful commercialization of this new type battery will bring a new turnaround in the performance of the batteries segment.

Profit attributable to shareholders for the period under review reported a period-to-period increase of 14% to RMB37,153,000. Net margin decreased slightly from 14.5% to 13.5%, mainly due to the decrease in gross margin.

## **PROSPECTS**

The Group expects demand for zirconium chemicals to remain strong in 2007. As many industries now use zirconium chemicals as an integral part of their manufacturing process, there is no sign of any weakening in zirconium chemicals consumption. Taking into account the revised VAT refund policy in China effective 1 July 2007, the Group believes the gross margin of some zirconium products will be affected in the second half year of 2007. The Group will communicate with the overseas customers to get their understanding of the situation, and believes that they will provide appropriate supports to us. Hence, the Group expects the change in VAT refund policy will only have short-term effect.

Facing the rapid growth in demand, the Group started in earlier this year a plan for constructing a new zirconium chemicals production plant in Binhai, PRC. The Group has obtained the necessary approvals from the PRC government authorities in August 2007 and expects to complete the registration process in early September 2007. Construction of phase I of the new plant is scheduled to be completed in the first half year of 2008, which will expand the existing production capacity by almost one-third. This will provide a strong basis for remarkable revenue growth in future.

On the supply side, there was a tight market for zircon in the first half year of 2007. But with the increasing output from Indonesian zircon mines, some easing is expected in the second half year. However, the market expects the zircon price to remain stable if not increase in 2007 because the demand growth for zircon is still very strong. In view of the uncertainty in zircon supply and price, the Group is striving to finalize the plan of investment in or cooperation with zircon mine operators. The management expects to come up with a final decision in the third quarter of 2007.

Going forward, the Group will build on its sophisticated production and technical capabilities and the expertise of its management team to achieve growth. To maintain industry leadership, the Group will continue to allocate significant resources on research and development of new high-end zirconium products, as well as on innovation of new application technology, with internally-developed intellectual property rights, for zirconium chemicals. Looking ahead, the Group's business objective is to continue to enhance the product quality, explore new products, improve the production efficiency and strengthen the cost control, in order to meet the increasing demand and expectations from our customers, thereby to further increase the market share and the competitiveness of the Group.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007.



## **SUBSTANTIAL SHAREHOLDER'S AND DIRECTORS' INTERESTS IN SECURITIES**

### **Substantial Shareholder's Interests in Securities**

As at 30 June 2007, the register of shareholders maintained pursuant to the Securities and Futures Ordinance (the "SFO") shows that the following shareholders with interests representing 5% or more of the Company's issued share capital:

<b>Name of Shareholders</b>	<b>Number of Shares</b>	<b>Percentage of total Share Capital</b>
Yang Xin Min	280,454,946	39.5%
CCB International (Holdings) Limited	93,000,000	13.1%

Save as disclosed above, the Board is not aware of any persons directly or indirectly interested in 5% or more in the shares of the Company as recorded in the register required to be kept under the SFO.

### **Directors' Interests in Securities**

As at 30 June 2007, the interests of the directors and chief executive of the Company in the securities of the Company and its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8, stipulated in Section 341 of Part XV of the SFO (including interests or short positions which they were 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 contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

<b>Name of Director</b>	<b>Nature of Interests</b>	<b>Number of shares and approximate percentage of shares interested</b>
Yang Xin Min	Personal	280,454,946 (39.5%)

## **SHARE OPTION GRANTED PURSUANT TO THE SHARE OPTION SCHEME**

Pursuant to the written resolution on Share Option Scheme (the "Scheme") approved by the directors on 24 September 2002, 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.

During the period ended 30 June 2007, 5,500,000 (2006: Nil) Options have been granted under the Scheme and they have been fully exercised as at period end.

Details of the movement of the Options granted during the period were as follows:

Name of Grantee	Date of Grant	Exercise Period	Subscription Price Per Share	Outstanding as at 31 December 2006	Number of Options		
					Granted during the period	Exercised during the period	Outstanding as at 30 June 2007
Fang Guo Qiang	12 February 2007	12 February 2007 to 30 June 2007	HK\$0.80	—	5,500,000	5,500,000	—

## LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2007, the Group's cash and cash equivalents totalled RMB320,734,000, compared to RMB165,718,000 as of 31 December 2006. The increased balance was mainly the unused portion of proceeds from the placing of new shares during the current period.

At 30 June 2007, the Group had unsecured banking facilities amounted to HK\$400,000 in the form of corporate credit cards and US\$3,800,000 trade financing facilities secured by corporate guarantee of the Company. The Group has the same banking facilities as at 31 December 2006.

The Group had no long-term liabilities as at 30 June 2007 and 31 December 2006.

## CONTINGENT LIABILITIES

At 30 June 2007, the Group had no material contingent liabilities.

## EMPLOYEES

For the six months ended 30 June 2007, the Group had approximately 770 employees (same period of 2006: 730 employees). In the first half of 2007, the aggregate employee remuneration (including directors' fees) was approximately RMB9,118,000 (same period of 2006: RMB8,766,000). The Group offers competitive salary packages to its employees who will also be given incentives based on their individual performance as well as the Group's overall remuneration and bonus systems.

## 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 for the six months ended 30 June 2007.

## **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.

## **MATERIAL LITIGATION**

During the period, the Company was not involved in any litigation or arbitration of any material importance.

## **CORPORATE GOVERNANCE**

### **Compliance with the Code on Corporate Governance Practices**

During the period ended 30 June 2007, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except in respect of a code provision providing for the roles of Chairman and Chief Executive Officer to be performed by different individuals. The deviation is deemed appropriate as it is considered that the combination of the roles of Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

### **Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")**

The Company has adopted a code of conduct regarding directors' securities transactions in terms as stringent as those set out in the Model Code. All Directors, following specific enquiries made by the Company, confirmed that they have complied with the required standard of dealings as set out therein throughout the six months period ended 30 June 2007.

## **AUDIT COMMITTEE**

The Company set up an Audit Committee on 24 September 2002 with its written terms of reference being in compliance with the Rules set out in "A Guide for the Formation of An Audit Committee" issued by 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 along with the management have reviewed the accounting principles, standards and methods adopted by the Group, and has reviewed the unaudited Interim Financial Statements for the six months ended 30 June 2007.

## **POST BALANCE SHEET DATE EVENT**

As at the date of this report, the Group had no post balance sheet date event.

## **PUBLICATIONS OF INTERIM RESULTS AND INTERIM REPORT**

This interim results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at [www.hkex.com.hk](http://www.hkex.com.hk) under the section “Latest Listed Company Information” and on the website of the Company at [www.chinazirconium.com.hk](http://www.chinazirconium.com.hk). The 2007 Interim Report containing all the information required under paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on the Exchange will be published on the same websites in due course.

By order of the Board  
**Yang Xin Min**  
*Chairman*

Hong Kong, 6 September 2007

*As at the date of this announcement, the Directors of the Company are Mr. Yang Xin Min, Ms. Huang Yue Qin, Mr. Zhou Quan, Mr. Li Fu Ping as Executive Directors, Mr. Cheng Faat Ting Gary, Mr. Guo Jing Mao and Mr. Shi You Chun as Independent Non-Executive Directors.*

\* *For identification purpose only*