



ASIA ZIRCONIUM LIMITED

亞洲鋯業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0395)

2006 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of Asia 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 2006 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 2006

	Notes	Unaudited	
		Six months ended 30 June 2006	2005
		RMB'000	RMB'000
Turnover	2	224,323	195,721
Cost of sales		(165,204)	(144,778)
Gross profit		59,119	50,943
Other revenue	2	1,026	1,394
Distribution costs		(4,908)	(5,314)
Administrative expenses		(7,438)	(7,329)
Other operating expenses		(2,525)	(326)
Profit from operations	3	45,274	39,368
Finance costs		(389)	(226)
Profit before taxation		44,885	39,142
Taxation	4	(12,276)	(5,124)
Profit attributable to shareholders		32,609	34,018
Dividends	5	—	—
Basic earnings per share (RMB)	6	0.065	0.067
Diluted earnings per share (RMB)	6	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Notes	Unaudited	Audited
		30 June 2006	31 December 2005
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		242,734	245,785
Land use rights		54,346	54,946
Intangible assets		1,750	2,100
Prepayments and deposits		14,562	15,251
Total non-current assets		313,392	318,082
Current assets			
Inventories		63,985	65,721
Trade receivables	7	51,947	42,464
Prepayments and other receivables		30,513	43,723
Cash and bank balances		177,781	140,220
Total current assets		324,226	292,128
Total assets		637,618	610,210
Current liabilities			
Tax payable		32,910	30,041
Trade payables	8	24,635	15,000
Accruals and other payables		45,127	42,722
Trust receipt loans		13,380	26,525
Short-term bank loan		10,378	—
Total current liabilities		126,430	114,288
Net current assets		197,796	177,840
Total assets less current liabilities		511,188	495,922
Financed by:			
Share capital		53,529	53,529
Other reserves		191,394	208,737
Retained profits		266,265	233,656
Shareholders' Funds		511,188	495,922

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 2005.

2. Turnover, Revenues 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:

	Unaudited	
	Six months ended 30 June 2006	2005
	RMB'000	RMB'000
Turnover	224,323	195,721
Other revenue – interest income	172	38
– other	854	1,356
Total revenue	225,349	197,115

(i) Primary reporting format — geographical segments

For the six months ended 30 June 2006 (Unaudited)

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

For the six months ended 30 June 2005 (Unaudited)

	Japan	The USA	The PRC	The Netherlands	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	34,244	38,306	75,005	27,984	20,182	195,721
Segment results	5,514	13,006	20,713	5,371	6,339	50,943

(ii) Secondary reporting format — business segments

For the six months ended 30 June 2006 (Unaudited)

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



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For the six months ended 30 June 2005 (Unaudited)

	Zirconium compounds RMB'000	Electronic materials and electronic ceramics RMB'000	New energy materials RMB'000	Batteries RMB'000	Total RMB'000
Segment revenue	165,830	571	22,281	7,039	195,721
Segment results	48,171	270	3,379	(877)	50,943

3. Depreciation and Amortisation

During the period, depreciation and amortisation of approximately RMB8,264,000 and RMB600,000 (2005: RMB4,813,000 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 2006 RMB'000	2005 RMB'000
Provision for PRC EIT	12,276	5,124

- (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. Starting from January 2006, the applicable EIT rate for Yixing Zirconium is 24%. No EIT provision is made for Better Batteries as it did not make a profit in the current period.

- (b) As at 30 June 2006, no provision for deferred tax (2005: 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 (2005: Nil).

6. Earnings Per Share

Basic earnings per share is calculated based on the profit attributable to shareholders of RMB32,609,000 (2005: RMB34,018,000) and on the weighted average number of 504,170,946 (2005: 504,170,946) shares in issue during the period.

Diluted earnings per share are not presented for the six months ended 30 June 2006 and 30 June 2005 as there were no dilutive potential ordinary shares in existence during the respective period.

7. Trade Receivables

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

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
0 – 90 days	49,806	40,074
91 – 180 days	1,568	710
181 – 365 days	573	1,322
More than 1 year	—	358
	<u>51,947</u>	<u>42,464</u>

Note:

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 Payables

Aging analysis of trade payables is as follows:

	Unaudited 30 June 2006 RMB'000	Audited 31 December 2005 RMB'000
0 – 90 days	20,730	11,357
91 – 180 days	970	266
181 – 365 days	1,433	1,163
More than 1 year	1,502	2,214
	<u>24,635</u>	<u>15,000</u>

REVIEW OF RESULTS AND OPERATIONS

For the six months ended 30 June 2006, the Group recorded a total turnover of RMB224,323,000, represented a 15% growth as compared to the same period last year. Zirconium business continued to be the Group's major revenue source, which accounted for 90% of the current period's turnover. Consistent with prior year's strategy, the Group continued to enhance its product mix by producing and selling more high-end deep processed products. This strategy was once again proved to be successful as the Group recorded a 22% growth in sales and 16% growth in the results of the zirconium compounds segment. The gross margin of this segment remained stable at around 28%.

Sales contributed by the new energy materials business has decreased by 29% to RMB15,727,000 in the current period. Due to the surging prices of raw materials, including nickel and cobalt, the Group has strategically adjusted the production and sales plan of this segment so as to reduce the negative effect of this segment on the overall results of the Group. Notwithstanding the drop in sales of this segment, the Group was able to maintain the gross margin of this segment at around 15%.

Batteries business recorded a sales of RMB4,157,000 in the period under review. Through the adoption of certain internal restructuring and staff rearrangement procedures, the NiMH battery business had turned around to a positive result in the current period. The Li-ion battery business was still loss-making in the first half year but is expected to break away from deficit within this year.

The Group's profit before taxation has increased by 15% from RMB39,142,000 to RMB44,885,000. However, the tax holiday for the Group's principal subsidiary in Mainland China ended in year 2005. This resulted in a rise in the enterprise income tax rate applicable to the Group from 12% to 24% as from 1 January 2006, which in turn accounted for the substantial increase in taxation expense from RMB5,124,000 to RMB12,276,000 in the current period.

PROSPECTS

The Directors are optimistic about the performance of the Group for the full year as the global economy continues to flourish. The Group's sales of zirconium products in the cosmetic and ceramics industries is expected to grow at a considerable rate, whereas sales of new zirconium products to the paper industry and artificial jewelry industry will also expand rapidly in the coming years. Moving ahead, the Group will continue to invest in research and development of new high-end zirconium products so as to diversify and perfect its product mix. The management is confident that product diversification would facilitate business expansion, provide greater flexibility and increase operating profit in the long run. On the other hand, the Group is actively considering the opportunities of cooperation with zircon sand new suppliers so as to stabilise the raw materials supply for the future expansion of its zirconium business.

Although the benefit from the Group's investment in the new energy materials and batteries businesses has not yet fully reflected in the Group's results during the period under review, the benefit is expected to materialise in future. In particular, the batteries business is expected to break away from deficit in 2006. The group will continue to focus on the research and development of new type power batteries, which meets the global direction of environmental-friendly new energy development.



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INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006.

SUBSTANTIAL SHAREHOLDER'S AND DIRECTORS' INTERESTS IN SECURITIES

Substantial Shareholder's Interests in Securities

As at 30 June 2006, the register of shareholders maintained pursuant to the Securities and Futures Ordinance (the "SFO") shows that the following shareholder with interests representing 5% or more of the Company's issued share capital:

Name of Shareholder	Number of Shares	Percentage of total Share Capital
Yang Xin Min	299,614,946	59.43%

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 2006, 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:

Name of Director	Nature of Interests	Number of shares and approximate percentage of shares interested
Yang Xin Min	Personal	299,614,946 (59.43%)

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.

No Options have been granted or exercised during the period (2005: Nil) and there was no outstanding Options as at 30 June 2006 (2005: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

At 30 June 2006, the Group had unsecured banking facilities amounted to HK\$400,000 in the form of corporate credit cards and US\$3,800,000 in the form of trade financing facilities. The Group has the same banking facilities as at 31 December 2005.

The Group had no long-term liabilities as at 30 June 2006 and 31 December 2005.

CONTINGENT LIABILITIES

At 30 June 2006, the Group had no material contingent liabilities.

EMPLOYEES

For the six months ended 30 June 2006, the Group had approximately 730 employees (same period of 2005: 670 employees). In the first half of 2006, the aggregate employee remuneration (including directors' fees) was approximately RMB8,766,000 (same period of 2005: RMB8,367,000). 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 2006.

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 2006, 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 2006.

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 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 2006.

POST BALANCE SHEET DATE EVENT

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

PUBLICATION OF FINANCIAL INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All information required by paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

By order of the Board
Yang Xin Min
Chairman

Hong Kong, 31 August 2006

The directors of the Company as at the date of this announcement are Mr. Yang Xin Min, Ms. Huang Yue Qin, Mr. Zhou Quan, Mr. Li Fu Ping, Mr. Cheng Faat Ting Gary, Mr. Guo Jing Mao and Mr. Shi You Chun.