Astron Limited

ABN 97 000 285 272

Half-Year Financial Report

for the half-year ended 31 December 2004

Corporate Information

ABN 97 000 285 272

Directors
Mr Gerard King (Chairman)
Mr Alexander Brown (Managing Director)
Mr Robert Flew (Non-executive Director)

Company Secretary
Mr Matthew Suttling

Registered Office
C/- BDO
Level 19, 2 Market Street
Sydney, NSW 2000

Australian Business Office
c/- Matthew Suttling
105 Howard Avenue
Dee Why NSW 2099

Principal Place of Business
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7th Floor, Tongda Building No 338
Daxi Road, Shenhe District
Shenyang, Liaoning Province, China 110013
Telephone: 86 24 2295 0406
Fax: 86 24 2295 1491

Solicitors
Phillips Fox
255 Elizabeth Street
Sydney NSW 2000

Bankers
Commonwealth Bank of Australia
48 Martin Place
Sydney NSW 2000

Share Register
Computershare Investor Services Limited
Level 3, 60 Carrington Street
Sydney NSW 2001
Telephone No. 61 2 8234 5000

Auditors
BDO
Chartered Accountants
Level 19, 2 Market Street
Sydney NSW 2000

Internet Address
www.astronchem.com

Contents

Directors' Report

Your directors submit their report for the half-year ended 31 December 2004.

DIRECTORS

The names and details of the company's directors in office during the half-year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr Gerard King, LLB Chairman and Board Member since 5 November 1985

Mr Alexander Brown, B.AgSc Managing Director and Board Member since 4 February 1988

Mr Robert Flew, B Ec (Hons) Non-executive Director and Board Member since 19 March 2004

REVIEW OF OPERATIONS

Financial Result - Half Year Profit up 152%

Shareholders will be pleased to note the companies record half year turnover and profit.

- Revenue for the half year ended 31st December 2004 up 48.6% to $69 million (2003 $46 million)
- The result for the half year ended 31st Dec 2004 was a record profit after tax of $12.9 million (2003 $5.1 million) up 152 % and representing half year earnings of 22.2 cents per share
- The result reflected the higher market prices for Zirconia products and strong continuing growth worldwide for Astron's products.

Review of Operations

- During the half year period, Astron continued to consolidate its position as China's largest Zirconium Chemicals and Materials company and to expand its sales throughout China and throughout the world
- The enormous expansion of demand currently being experienced in China continued to contribute to Astron's Zirconium business. Demand in China for basic Zirconium raw material imports (Zircon sand) is currently growing 20-25% per year and the world demand for zirconium chemicals and specialty products also continue to grow strongly

Outlook

- China's growth shows no sign of significant slowing and Astron's strong customer support and sales growth continues
- Nevertheless a potential for shortages of Zircon sand supply exists in the market and also, Zircon raw material costs are expected to increase in the short term
- Due to these uncertainties Astron's previous full year profit forecast of 19 million AUD has not been amended

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration under Section 307C of the Corporations Act 2001 is following and forms part of the Directors' report for the half year ended 31 December 2004.

Signed in accordance with a resolution of the directors.

Mr Gerard King
Director

Sydney, 28 February 2005

BDO
Chartered Accountants
& Advisers

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DECLARATION OF INDEPENDENCE BY ROBERT PECK TO THE DIRECTORS OF ASTRON LIMITED

To: The Directors of Astron Limited

To the best of my knowledge and belief, in relation to the review for the financial half year ended 31 December 2004, there have been:

(i) no contraventions of the auditor independence requirements of this Act in relation to the review; and
(ii) no contraventions of any applicable code of professional conduct in relation to the review.

BDO
Chartered Accountants

Robert Peck
Partner

Signed in Sydney on 28 February 2005

Condensed Statement of Financial Performance

HALF-YEAR ENDED 31 DECEMBER 2004	Notes	CONSOLIDATED	
		31 December 2004	31 December 2003
		$	$
Sales revenue		69,028,540	46,441,532
Cost of sales		(47,975,998)	(35,331,767)
GROSS PROFIT		21,052,542	11,109,765
Other revenues from ordinary activities		249,454	177,783
Share of net profits (losses) of associate and joint venture accounted for using the equity method		(149,984)	-
Distribution expenses		(3,010,688)	(2,126,619)
Marketing expenses		(773,610)	(786,635)
Occupancy expenses		(114,993)	(57,220)
Administrative expenses		(4,108,983)	(2,450,721)
Borrowing costs expensed		(94,425)	(382,225)
Other expenses from ordinary activities		(208,274)	(86,418)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		12,841,039	5,397,710
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES		10,710	(313,532)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		12,851,749	5,084,178
NET PROFIT		12,851,749	5,084,178
NET PROFIT ATTRIBUTABLE TO MEMBERS OF ASTRON LIMITED		12,851,749	5,084,178
Net exchange difference on translation of financial report of foreign controlled entities		(4,239,031)	(2,789,302)
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF ASTRON LIMITED AND RECOGNISED DIRECTLY IN EQUITY		(4,239,031)	(2,789,302)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		8,612,718	2,294,876
Basic earnings per share (cents per share)		22.2	8.8
Diluted earnings per share (cents per share)		22.2	8.8

The Condensed Statement of Financial Performance is to be read in conjunction with the Notes to the Financial Statements.

Condensed Statement of Financial Position

HALF-YEAR ENDED 31 DECEMBER 2004	Notes	CONSOLIDATED	
		As at 31 December 2004	As at 30 June 2004
		$	$
CURRENT ASSETS			
Cash assets		8,779,015	15,615,793
Receivables		14,835,407	12,445,301
Inventories		26,184,864	20,303,627
TOTAL CURRENT ASSETS		49,799,286	48,364,721
NON-CURRENT ASSETS			
Receivables		446,285	1,868,055
Other financial assets	7	4,676,250	-
Property, plant and equipment		13,139,924	12,648,378
Deferred exploration, evaluation and development costs		14,579,865	14,095,155
TOTAL NON-CURRENT ASSETS		32,842,324	28,611,588
TOTAL ASSETS		82,641,610	76,976,309
CURRENT LIABILITIES			
Payables		18,883,178	17,544,687
Interest-bearing liabilities		5,121,498	9,128,027
Current tax liabilities		1,115,803	1,395,181
TOTAL CURRENT LIABILITIES		25,120,479	28,067,895
TOTAL LIABILITIES		25,120,479	28,067,895
NET ASSETS		57,521,131	48,908,414
EQUITY			
Parent entity interest			
Contributed equity		22,509,506	22,509,506
Reserves		(6,638,123)	(2,399,091)
Retained profits	6	41,649,748	28,797,999
Total parent entity interest in equity		57,521,131	48,908,414
TOTAL EQUITY		57,521,131	48,908,414

The Condensed Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements.

Condensed Statement of Cash Flows

HALF-YEAR ENDED 31 DECEMBER 2004	Notes	CONSOLIDATED	
		31 December 2004	31 December 2003
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		70,254,196	44,404,366
Payments to suppliers and employees		(64,585,474)	(38,220,387)
Interest received		94,050	57,440
Borrowing costs		(94,425)	(382,219)
Income tax paid		10,710	(292,500)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		5,679,057	5,566,700
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,672,244)	(2,060,742)
Deferred exploration, evaluation and development costs		(558,242)	-
Purchase of shares		(4,998,750)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(8,229,236)	(2,060,742)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		-	3,756,881
Repayments of borrowings - other		(3,141,905)	(513,579)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(3,141,905)	3,243,302
NET INCREASE/(DECREASE) IN CASH HELD		(5,692,084)	6,749,260
Add opening cash brought forward		15,615,726	5,338,349
Effects of exchange rate changes on cash		(1,144,627)	(763,140)
CLOSING CASH CARRIED FORWARD		8,779,015	11,324,469

The Condensed Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements.

Notes to the Half-Year Financial Statements

31 DECEMBER 2004

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the economic entity as the full financial report.

The half-year report should be read in conjunction with the Annual Financial Report of Astron Limited as at 30 June 2004. It is also recommended that the half-year report be considered together with any public announcements made by Astron Limited and its controlled entities during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Changes in accounting policies

The accounting policies applied are consistent with the most recent annual financial report for the year ended 30 June 2004.

(c) Income Tax

Consistent with the Financial Report of 30 June 2004 the profits derived in China receive Chinese income tax concessions and as such the consolidated group profit has not been assessed at the Australian Corporate Income Tax rate of 30%.

2. CHANGE IN COMPOSITION OF ENTITY

During the period ended 31 December 2004 Astron Limited incorporated two Chinese entities being Yingkou Astron New Material Co., Ltd and Tai Cang Astron Mining Product Co., Ltd.

3. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

4. SEGMENT INFORMATION

The consolidated entity has one reportable segment for both geographical and business formats being chemical manufacturing and mineral processing and trading in China.

5. SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the half year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial periods.

Notes continued

31 DECEMBER 2004

6. ADDITIONAL INFORMATION

	CONSOLIDATED	
	As at 31 December 2004	As at 31 December 2003
	$	$
Reconciliation of retained profits		
Balance at beginning of the half-year	28,797,999	13,647,239
Net profit attributable to members of Astron Limited	12,851,749	5,084,178
Total available for appropriation	41,649,748	18,731,417
Balance at end of half-year	41,649,748	18,731,417

7. OTHER FINANCIAL ASSETS

During the half year the Company acquired a strategic investment in a Listed Australian company. The shares have been valued at market value as at 31 December 2004.

Notes continued

31 DECEMBER 2004

8. IMPACT OF ADOPTING AASB EQUIVALENTS

For years ending on or after 30 June 2006, all general purpose financial reports prepared in accordance with the requirements of Chapter 2M of the Corporations Act will be required to comply with Australian equivalents to International Financial Reporting Standards (IFRSs) instead of Australian Accounting Standards presently on issue. Comparative financial statements must also be presented in accordance with Australian equivalents to IFRSs for the year ending 30 June 2005.

Astron Limited has commenced transitioning its accounting policies and financial reporting from current Australian Standards to IFRS's. The company has allocated internal resources and will engage external consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As a result of these procedures, Astron Limited is addressing each of the areas listed in order of priority. The reviews will be directly reported to the Audit Committee who will then be responsible to make any necessary decisions.

As Astron Limited has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Astron Limited prepare its first fully IFRS compliant financial report for the year ended 30 June 2006.

(a) Management of the Transition Process

The group's transition process consists of 3 phases as follows:

Planning Phase

This phase involves setting out the time table for transition and identifying differences in key accounting policies between current Australian Accounting Standards and the Australian equivalents to IFRSs to be adopted in future. It also involves an assessment of complex areas and a basic stocktaking of resources available to implement the process.

The planning phase has essentially been completed at 30 June 2004.

Diagnosis Phase

Detailed training on specific Australian equivalents to IFRSs will be undertaken during this phase, particularly for staff directly involved in accounting functions.

The Diagnosis Phase also involves a more detailed analysis (than merely of key accounting policy differences) of measurement and disclosure impacts and preparatory work on revised statutory reporting templates. To ensure that quantitative information is available for AASB 1047 disclosures required at 30 June 2005, decisions will be taken on exemptions and options provided in AASB 1 "First Time Adoption of Australian equivalents to IFRSs" and detailed impairment testing will be performed on opening balance sheet carrying values of assets at 1 July 2004. Business impacts (e.g. relationships with bankers and lenders and employees), accounting system changes, training and resource requirements will also be identified during this phase. This phase has commenced and is due for completion by 30 June 2005.

Conversion Phase

During this phase, changes required to accounting and reporting systems will be finalised and tested. Agreements with lenders and contracts with employees will be renegotiated to ensure that the group is not prejudiced by the adoption of the new accounting framework. Key performance indicators will be reset and extensive training will be undertaken during this phase to ensure that all employees, accounting personnel and other, who are impacted by the adoption of Australian equivalents to IFRSs are confident with new processes. This phase is expected to be completed by 30 June 2005.

(b) Changes to Key Accounting Policies

The group has identified the following key differences in accounting policies that are expected to arise from adopting Australian equivalents to IFRSs. At this stage the company has not been able to reliably quantify the impacts on the financial report.

Notes continued

31 DECEMBER 2004

8. IMPACT OF ADOPTING AASB EQUIVALENTS (cont)

Presentation Currency

The group is currently required to present the financial statements in Australian currency. Under Australian equivalents to IFRSs the group may select a presentation currency other than Australian currency.

Extractive Industries

The impacts of changes from the current AASB 1022 are not yet determinable.

Impairment of Assets

The group currently assesses the amount of impairment of assets by determining the recoverable amount on the basis of undiscounted cash flows. Under Australian equivalents to IFRSs, the group will be required to determine the recoverable amount as the higher of fair value less costs to sell and value in use (which is determined using discounted cash flows). It is likely that this change in policy and basis for calculation may lead to impairment losses being recognised and therefore greater volatility in future earnings. It is also likely that when discounting is initially applied on transition at 1 July 2004, impairment losses may need to be recognised on few if any assets, resulting in a minimal impact on opening balances of retained earnings at that date. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

Revenue on Disposal of Assets

Currently the group includes gross revenue received on disposal of assets as revenue. Under Australian equivalents to IFRSs, gains and losses on sale of assets will be recognised on a net basis in revenue, resulting in lower revenue being recorded by the group. However there will be no impact on the net result.

Income taxes

A "balance sheet" approach will be adopted under Australian equivalents to IFRSs, replacing the "statement of financial performance" approach currently used by Australian companies. The "balance sheet" method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base. Any initial adjustments to calculate deferred tax assets and liability balances on transition using the new basis will be made through opening balances of retained earnings at 1 July 2004. Deferred tax asset and liability balances at 1 July 2004 can only be calculated once all other opening balance sheet amounts have been finalised at that date.

Non-Current Investments

Currently the group measures non-current investments at cost, with an annual review by directors to ensure that their carrying amounts are not in excess of their recoverable amount. Under Australian equivalents to IFRSs, subsequent measurement of non-current investments by the Parent entity is at cost with impairment tests performed when indicators of impairment are identified in accordance with AASB 136 Impairment of Assets. Initial impairment adjustments may arise because of the requirement to discount cash flows and these would have a negative impact on opening balances of retained earnings as at 1 July 2004.

Translation of Foreign Subsidiaries

As at 30 June 2004, the parent entity has provided interest-free funding to a related party and this balance is measured as the capital outstanding at that date. Under Australian equivalents to IFRSs, financial assets comprising loans and receivables are measured at amortised cost using a market-related interest rate. On 1 July 2004 this will result in a reduction of financial assets and an initial negative adjustment to opening balances of retained earnings.

The above list should not be considered to be a complete list of all changes that will result from the transition to IFRS. Whilst the evaluation of the detailed accounting policy changes and choices continues, there are areas that are anticipated to have a larger impact. However, as the detailed decisions with IFRS have not been finalised, it is not yet possible to quantify the impact of the transition to IFRS on Astron Limited's financial position and reported results.

Directors' Declaration

In accordance with a resolution of the directors of Astron Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

(i) give a true and fair view of the financial position as at 31 December 2004 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Mr Gerard King
Director

Sydney, 28 February 2005

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INDEPENDENT REVIEW REPORT TO MEMBERS OF ASTRON LIMITED

Scope

We have reviewed the financial report comprising the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, accompanying notes and Directors' Declaration of Astron Limited for the half-year ended 31 December 2004. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting, other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the disclosing entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Astron Limited is not in accordance with:

(a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the disclosing entity's financial position as at 31December 2004 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

BDO
Chartered Accountants

Robert Peck
Partner
Sydney

Date: 28 February 2005