

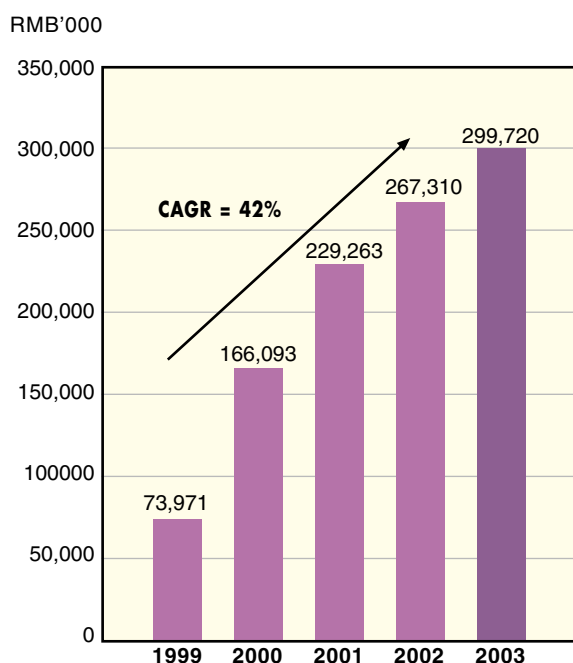
MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

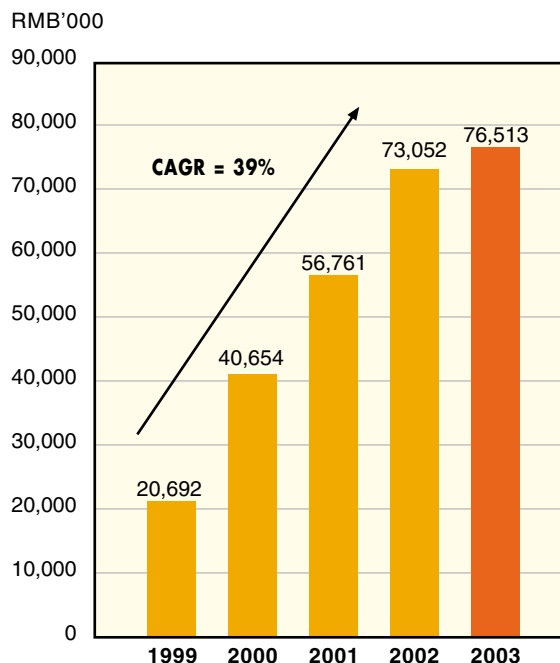
The Group's turnover and net profit continued to record satisfactory growth, though the operating environment in year 2003 was characterized by declining zirconium chemical prices. Consolidated turnover of the Group for the year ended 31 December 2003 amounted to approximately RMB300 million, representing a year-on-year growth of 12%, and profit before tax amounted to approximately RMB77 million, a growth of 6% as compared to the previous year.

For the period from 1999 to 2003, the Group achieved an impressive compound annual growth rate (CAGR) of 42% in turnover and 39% in earnings before interest and tax (EBIT). Such sustainable increase is mainly attributable to the accreditation of "Qualification Certification for Wastewater Treatment Facilities in Taihu Lake Basin in Jiangsu Province" granted to the Group in 1998. Having achieved such environmental protection requirements at the state level, the Group leveraged on the opportunity to carry out mass production of zirconium chemicals, so as to enjoy continual growth over the years and benefit from the economies of scale.

Turnover (1999-2003)



EBIT(1999-2003)



TURNOVER ANALYSIS

The Group is a leading rare metal chemical products manufacturer with turnover primarily from zirconium chemicals. For the year ended 31 December 2003, the manufacture and sale of zirconium chemicals accounted for 97% of the Group's total turnover. As a result of product mix enhancement, turnover of zirconium oxychloride, a low end zirconium chemical product, declined from 44% in 2002 to 39% in 2003, while zirconium oxides increased from 25% in 2002 to 28% in 2003. We believe that by enhancing our product structure, the profitability of the Group will be enhanced in the long run.

Management Discussion and Analysis (cont'd)

TURNOVER ANALYSIS (Cont'd)

The Board is pleased to see that in addition to its strong foothold in the zirconium chemicals market, the Group has gradually moved forward to another rare metal chemical products, and opened up new revenue streams in new energy materials and ceramics, forming a strengthened and more diversified revenue base that is beneficial to the Group's long-term development. The two businesses, which commenced in June and September 2003 respectively, accounted for approximately 3% of the Group's total turnover, and are expected to have a fuller impact on the Group in 2004.

TURNOVER ANALYSIS BY PRODUCT CATEGORY

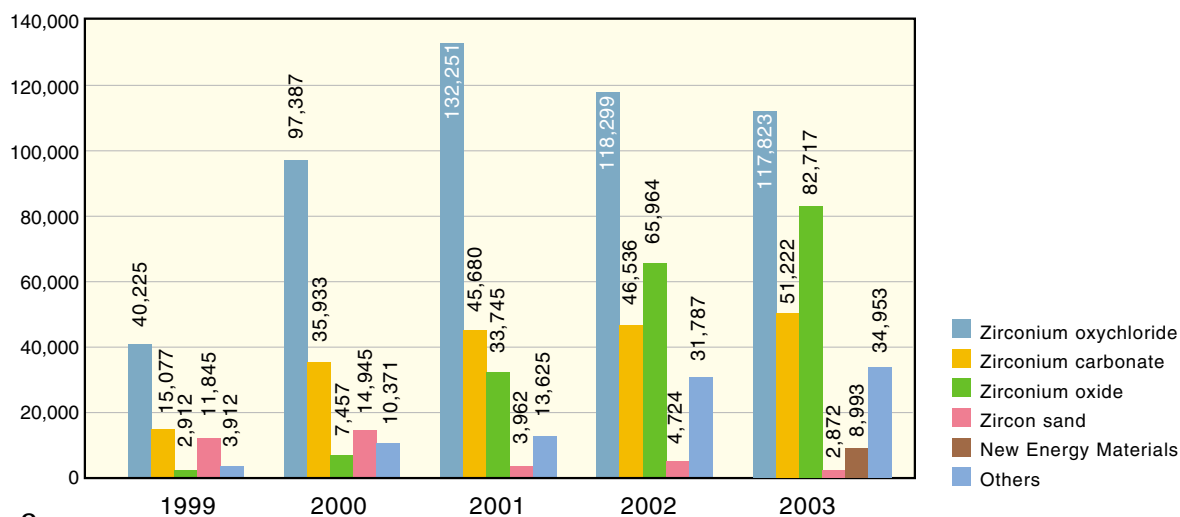
The following table presents the Group's turnover analysis by product category for the five years ended 31 December 2003:

Product Sales	1999		2000		2001		2002		2003	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Segment 1: Zirconium Chemicals										
Zirconium oxychloride	40,225	55	97,387	59	132,251	57	118,299	44	117,823	39
Zirconium carbonate	15,077	20	35,933	22	45,680	20	46,536	17	51,222	17
Zirconium oxides	2,912	4	7,457	4	33,745	15	65,964	25	82,717	28
Zircon sand	11,845	16	14,945	9	3,962	2	4,724	2	2,872	1
Others (Note 1)	3,912	5	10,371	6	13,625	6	31,787	12	34,953	12
	73,971	100	166,093	100	229,263	100	267,310	100	289,587	97
Segment 2: Electronic Ceramic										
	—	—	—	—	—	—	—	—	764	0
Segment 3: New Energy Materials										
	—	—	—	—	—	—	—	—	8,993	3
Segment 4: Trading										
	—	—	—	—	—	—	—	—	376	0
	73,971	100	166,093	100	229,263	100	267,310	100	299,720	100

Note 1: Including potassium zirconium hexafluoride, zirconium sulphate, zirconium acetate, zirconium silicate and ammonium zirconium hexafluoride.

Turnover Analysis by Product Category

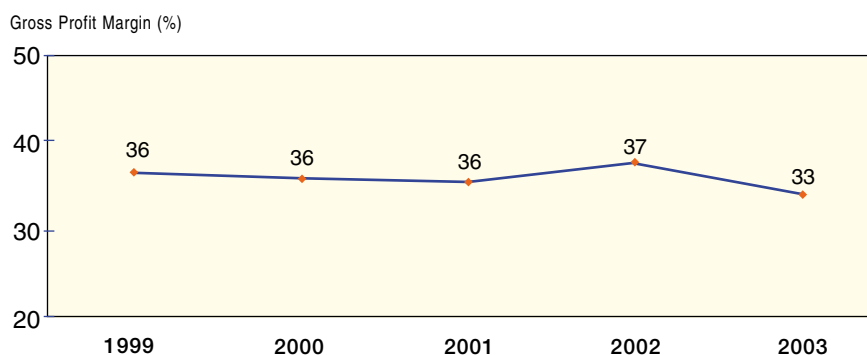
RMB'000



Management Discussion and Analysis (cont'd)

GROSS PROFIT MARGIN

The Group's zirconium chemicals recorded an increase in sales from approximately RMB267 million in 2002 to approximately RMB290 million in 2003, representing an increase of approximately 8%. The Group's gross margin slightly dropped from 37% in 2002 to 33% in 2003, which was attributable to price competition.

Gross Profit Margin (1999-2003)**TURNOVER ANALYSIS BY GEOGRAPHICAL REGION**

The following table presents the turnover analysis by geographical region for the five years ended 31 December 2003 and their respective percentages in total turnover:

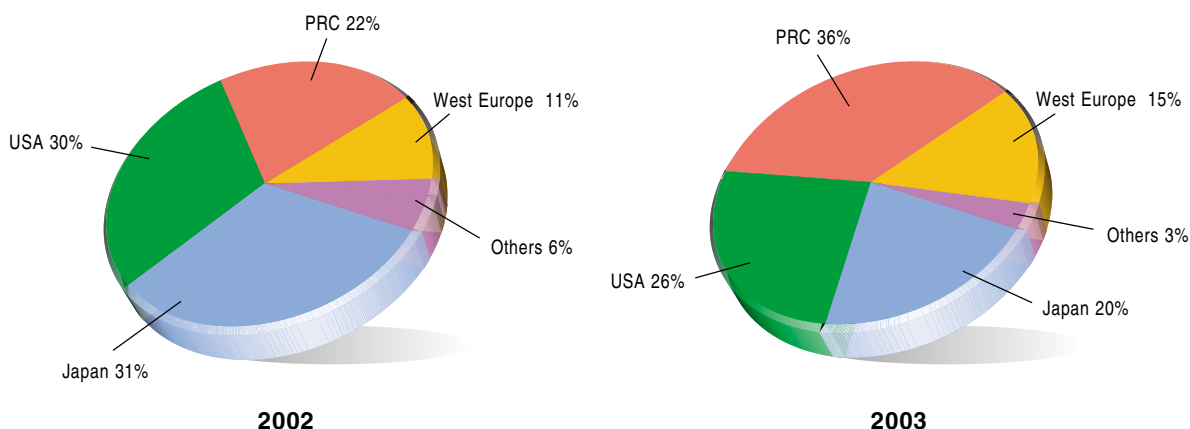
Regions	1999		2000		2001		2002		2003	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Japan	20,290	27	67,201	41	82,848	36	83,153	31	60,281	20
USA	15,856	21	34,641	21	39,653	17	81,024	30	79,084	26
PRC	33,763	46	52,241	32	33,371	15	58,906	22	107,144	36
West Europe (Note 2)	2,665	4	6,014	3	42,908	19	28,961	11	44,919	15
Others (Note 3)	1,397	2	5,996	3	30,483	13	15,266	6	8,292	3
	<u>73,971</u>	<u>100</u>	<u>166,093</u>	<u>100</u>	<u>229,263</u>	<u>100</u>	<u>267,310</u>	<u>100</u>	<u>299,720</u>	<u>100</u>

Note 2: Including the UK, the Netherlands and Germany, etc.

Note 3: Including Korea, India, Austria, Lithuania, South Africa, Columbia, Brazil, Turkey, New Zealand and Italy, etc.

Management Discussion and Analysis (cont'd)

Turnover Analysis by Geographical Region



CAPITAL EXPENDITURES

The capital expenditures of the Group for the five years ended 31 December 2003 are as follows:

	1999	2000	2001	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure	2,299	5,105	4,536	12,751	75,410

For the year ended 31 December 2003, the Group's capital expenditure was approximately RMB75,410,000, which was mainly attributable to the utilization of IPO proceeds for its capacity expansion. The expansion was completed at the end of year 2003. Full year production will be commenced in 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group's bank and cash balances, including pledged deposits, were approximately RMB139,665,000 (2002: RMB172,988,000). The Group had no long term liabilities as at 31 December 2003 and 2002.

CONTINGENT LIABILITIES

As at 31 December 2003, the Group had no contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2003, the Group pledged a bank deposit of RMB125,000 (2002: RMB453,000) as securities for trade financing facilities granted by banks.

As at 31 December 2003, the Group had banking facilities including bank overdraft of HK\$1,000,000 and a corporate credit card of HK\$300,000. The facilities are secured by the certificate of deposit amounted to HK\$1,000,000 which carried at fixed rate of 1.8% per annum and with a maturity of two years. The certificate of deposit will mature in November 2004.

EMPLOYEES

For the year ended 31 December 2003, the Group had approximately 517 employees (2002: 444 employees). In 2003, the aggregate employee remuneration (including directors' fees) was approximately RMB14,774,000 (2002: RMB19,379,000). The Group offers competitive salary packages to its employees. Additional incentive bonus based on individual staff performance is also offered in accordance with the Group's overall remuneration and bonus systems.