

CHAIRMAN'S STATEMENT

During the year under review, we have experienced a challenging year. The Group reported a turnover growth but a decrease in net profit. The decrease was primarily resulted from the increase in taxation expenses in current year, after the tax holiday finished by the end of 2005.

Due to the cost pressure from the high prices of major raw materials, increase in labour costs, intensifying market competition and the appreciation of Renminbi, the Group's gross margin is constrained as a consequence. Also, the outcome of the battery and electronic ceramic businesses was not as promising as originally planned. Under these circumstances, the management has pursued a more prudent strategy in aim of achieving a cost effective operational structure and acquiring a reasonable rate of return to the shareholders. This effectively promoted a growth in the Group's profits from operations even under the challenging operational environment faced by the Group during the year.



PROSPECTS

Looking into 2007, it is expected that the increasing demand for zirconium chemicals, resulting from the robust global and PRC economies, will bring further rooms for the development to the Group. Therefore, over the coming year, the Group will focus its efforts on establishing stable channels for supply of zircon so as to satisfy the Group's production needs for existing capacity and future expansion. The management has been vigorously identifying potential opportunities for investment in or establishing long-term strategic partnership with zircon mines so as to improve the quality and secure zircon supply. If any of these investment or partnership is materialised, the Group will make appropriate disclosure in accordance with the Listing Rules. On the other hand, the Group will continue to devote significant efforts and resources in improving technology and technological innovation for products so as to increase the quality and added-values of products.

The Group will take full advantage of its existing resources and competitive edges to actively seek for expansion opportunities in zirconium and related operations. Looking forward, capitalising on its abundant industry experience, high quality products, solid customer relationship and expanded production scale, the Group will continue to develop its core zirconium business and further increase its corporate profitability so as to generate satisfactory returns for its shareholders.

Yang Xin Min
Chairman