INDUSTRY REVIEW

Despite the government's macroeconomic tightening drive that started in 2004, the PRC economy continued to grow rapidly in 2006, with a double-digit growth in the gross domestic product. The world economy also maintains a growth momentum in the year under review and is expected to continue into 2007. The economic growth enhanced the expansion of zirconium chemical market, mainly for applications in consumption products and oxidised zirconium ceramics. PRC has also developed itself into the world's major producer of zirconium oxychloride, a key basic material that is used in the nuclear power industry. As a result, the zirconium chemical producers in the PRC are expected to benefit from the promotion of nuclear power in both China and the US. Overall, the global demand for zirconium chemicals is expected to grow further in the years to come.

On the supply side, with the Indonesian zircon coming on, the market has gone on a more balance in terms of supply and demand. It is forecasted that demand for zircon is going to grow continuously at historical levels and a substantial part of this growth will come from China. Although the Indonesian zircon eased the tight supply in 2006 to a certain extent, the market is uncertain on its surety of supply and the quality. Hence, it is expected that the price of zircon will maintain at a stable but relatively high level. This in turns will constrain the profit margin of zirconium chemical producers.

BUSINESS REVIEW

During the year under review, the operating environment remained challenging. Prices of zircon and other key raw materials continued to rise in 2006 which exerted pressure on the Company's profit margin. The appreciation of Renminbi also has some effects on the margin of our zirconium products, though not significant, in the sense that the exchange rate risk might not be fully transferable to our overseas customers with which we traded in US dollars. Notwithstanding the unfavorable operating factors, the Company continued to achieve a double-digit growth in the turnover of zirconium business. On the other hand, development and results of the new energy materials segment and battery segment were not as promising as previously planned. During the year, the management had downsized the operations of these two business lines. The Group will continue to closely scrutinise the operating environment and implement prompt and suitable strategy to cope with the market sentiment.

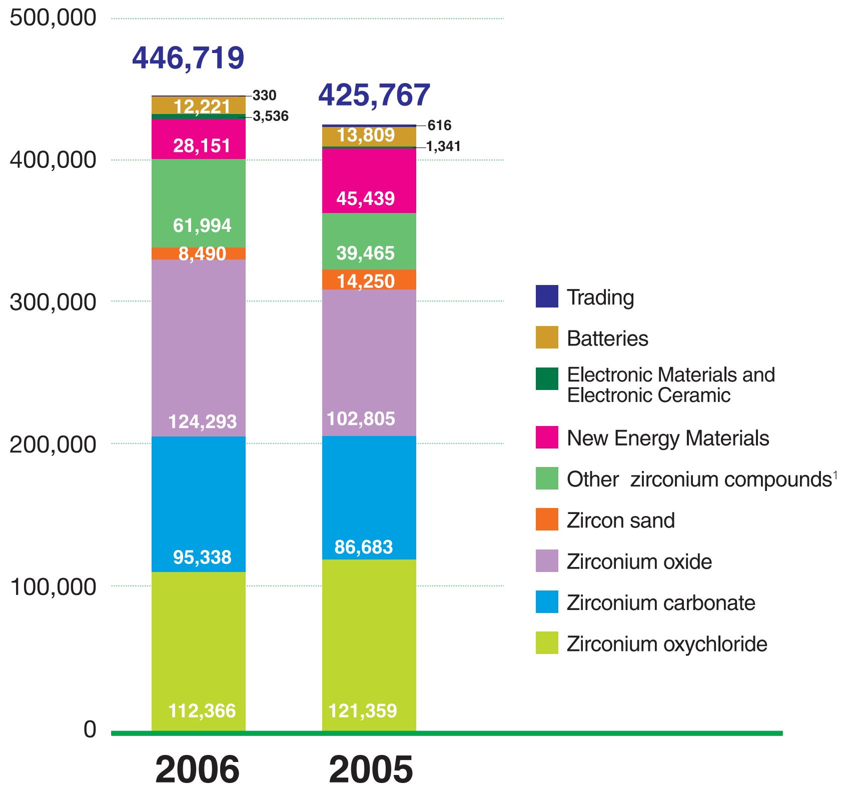
FINANCIAL REVIEW

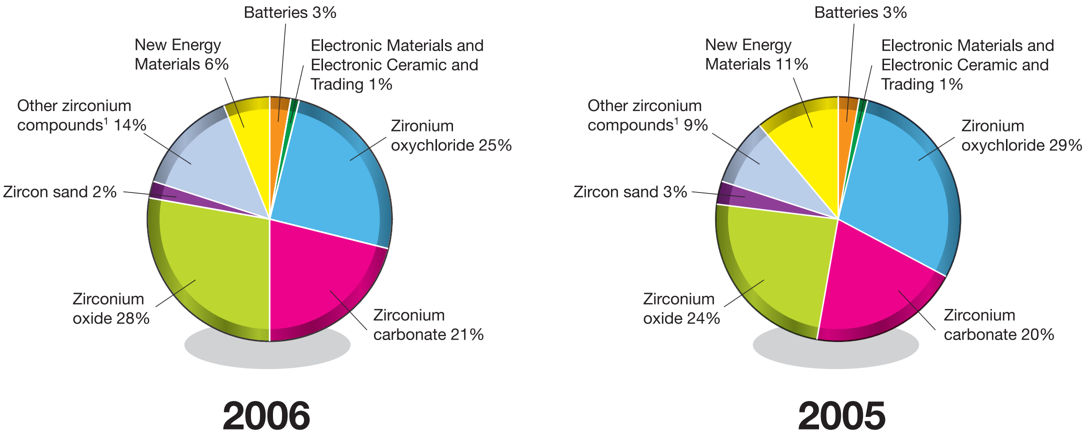
Turnover Analysis

For the year ended 31 December 2006 (the "Year"), the Group reported a total turnover of RMB446,719,000, represented a year-to-year growth of 5%. The largest segment, zirconium chemicals, contributed to 90% of total turnover, while the new energy materials and battery business contributed 6% and 3%, respectively. Notwithstanding that the Group has successfully opened up new revenue streams in prior year, zirconium chemicals business remained as the main focus of the Group's development.

Turnover analysis by product category

The charts below are a comparison of the Group's turnover by product category for the year ended 31 December 2005 and 31 December 2006 and the proportion of turnover for the relevant product categories:





Note 1: "Other zirconium compounds" included potassium zirconium hexafluoride, zirconium sulphate, zirconium acetate, zirconium silicate and ammonium zirconium hexafluoride, etc.

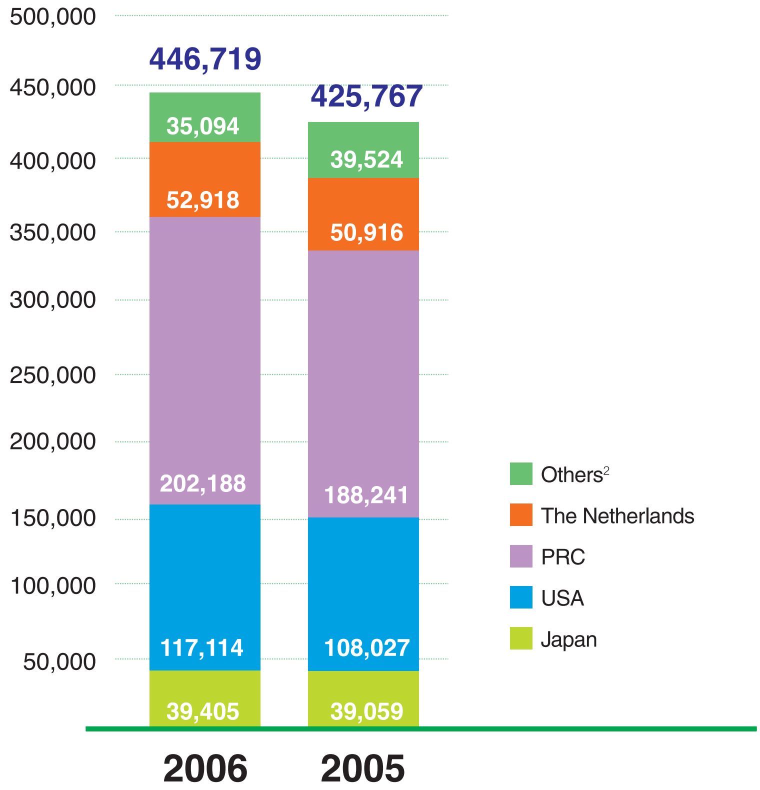
Total sales of zirconium chemicals increased by 10% or RMB37,303,000 as compared to prior year. This was mainly resulted from the further enhancement of product mix in the Year, being reflected in the higher percentage of sales contributed by zirconium oxide and zirconium carbonate.

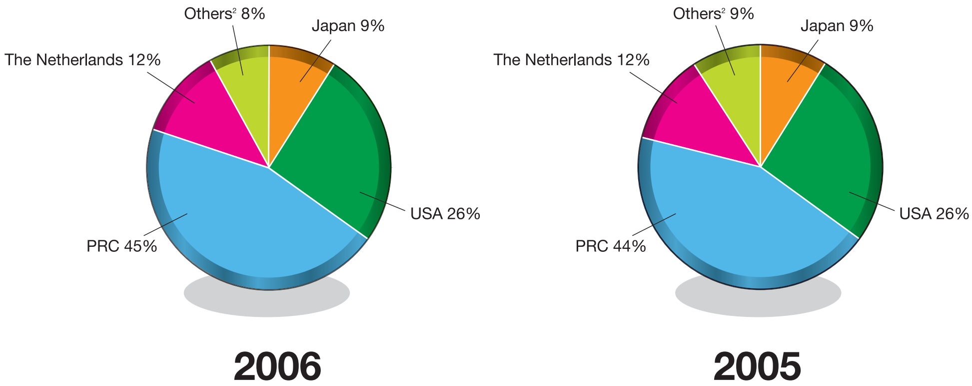
Total turnover of new energy materials dropped from RMB45,439,000 in last year to RMB28,151,000 in current year. During the Year, the management flexibly adjusted downwards the production and sales plan of new energy materials so as to constrain the negative effect of the rising raw materials prices on the overall profitability of the Group. The Company's strategy is to maintain a cost effective operating structure and achieve a reasonable profit margin.

Battery segment reported a turnover of RMB12,221,000 in the Year, represented 3% of the Group's total turnover.

Turnover analysis by geographical region

The following charts presented a year-to-year comparison of the 2005 and 2006 turnover in terms of geographical locations:





Note 2: "Others" included the United Kingdom, Germany, Korea, India, Austria, Lithuania, South Africa, Columbia, Brazil, Turkey, New Zealand and Italy, etc.

Domestic sales for the Year was approximately RMB202,188,000, represented 45% of total turnover or a 7% increase from prior year. The increment was primarily contributed by increased sales of zirconium chemicals in the local market. Sales to Japan remained stable at around 9% of total sales, whereas the sales to the Netherlands and US markets grew by 4% and 8%, respectively.

Gross Profit and Gross Margin

Gross profit for the Year dropped slightly from RMB106,115,000 to RMB105,524,000. Gross margin dropped by 1% to 24%. The continuous rise in raw materials prices and the production in the new energy materials and battery segments at a level below full capacity led to the increase in the production costs. Excluding the effect of these segments, gross margin of individual zirconium chemical products was relatively stable in 2006.

Capital Expenditure

The capital expenditures for the year ended 31 December 2006 and 2005 were approximately RMB20,457,000 and RMB39,652,000, respectively. Capital expenditure dropped by 48% in 2006 because there was no large scale expansion or construction project in the Year.

Liquidity and Financial Resources

The Group continued to be cash positive in 2006. As at 31 December 2006, the Group's bank and cash balances were approximately RMB165,718,000. (2005: RMB140,220,000). The Group continued to maintain a strong and healthy financial structure.

The Group's trade receivables turnover days increased from 34 days in 2005 to approximately 39 days in 2006. Nevertheless, the Group has not experienced significant bad debt problems and continued to maintain a healthy record of trade receivables turnover.

The inventory balance as at 31 December 2006 decreased by 19% to RMB53,467,000. Inventory turnover days decreased from 56 days to 49 days.

Exposure to Foreign Exchange Risk

The Group is exposed to foreign currency risk primarily through currency exposures in sales and purchases that are denominated in United State Dollars ("USD") with respect of RMB which is the Group's functional currency. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. It is the Group's policy that it will not engage in any speculative activities. During the Year, the Group has not engaged in any hedging transactions.

Contingent Liabilities

As at 31 December 2006, the Group had no contingent liabilities.

Pledge of Assets

As at 31 December 2006, the Group did not pledge any assets (2005: Nil) as securities for the banking facilities granted by its bankers.

Human Resources

As at 31 December 2006, the Group had a total of approximately 710 employees (2005: 680 employees). Total staff costs (including directors' emoluments) for the Year was approximately RMB18,686,000 (2005: RMB18,534,000), representing 4% of the Group's turnover (2005: 4%). Employees were remunerated based on their performance, experience and prevailing industry practice. Bonuses and rewards might also be awarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis.