

主席報告書 CHAIRMAN'S STATEMENT

致各位股東：

本人謹代表董事會向各位股東提呈中國稀土控股有限公司截至二零零五年十二月三十一日止之全年業績報告。

To Shareholders,

On behalf of the Board of Directors, I would like to present the annual results of China Rare Earth Holdings Limited for the year ended 31 December 2005.



蔣泉龍 - 主席 JIANG QUANLONG - Chairman

二零零五年，稀土行業繼續呈現復甦，產品的需求及價格均有所提升，有助本集團的業務發展，營業額再創新高。雖然年內原輔材料價格持續高企及稅務優惠期的屆滿，影響了本集團的盈利增幅，但隨著整體經濟的改善及本集團各部門的努力，使業績能有所進展。

另一方面，本集團一向關注礦產資源的有限供應。於二零零五年度末，本集團終於成功收購了位於中國遼寧的海城市蘇海鎂礦有限公司（「蘇海鎂礦」），使本集團的耐火材料業務上一方面得到原材料供應的保障，另一方面，亦使盈利基礎上得到新增長點。

財務業績

截至二零零五年十二月三十一日止財政年度，本集團營業額創出新高，錄得769,370,000港元，較二零零四年之665,320,000港元，增長16%。當中稀土產品（包括熒光材料）之銷售額佔45%，達345,243,000港元，較去年之300,984,000港元增長約15%。耐火材料產品（包括高溫陶瓷）的年度銷售額為424,127,000港元，佔營業額55%，較去年之364,336,000港元上升約16%。

本年度的除稅前溢利達到171,646,000港元，與去年之139,283,000港元比較上升

In 2005, benefited from the rebounding rare earth industry, which saw increase in demand and prices, the Group reported growth with turnover reaching a new height. Although persistently high material cost and expiry of tax holiday affected its profit growth, the overall improving economy plus the relentless efforts of every department had seen the Group advanced in its results.

Aware of the limited supply of mineral resources, the Group acquired Haicheng City Suhai Magnesium Ore Co., Ltd. ("Suhai Magnesium") in Liaoning, the PRC at the end of 2005. The acquisition has assured the Group of raw material supply for refractory products, as well as provided the Group with a new source of profit.

FINANCIAL RESULTS

For the year ended 31 December 2005, the Group's turnover surged to the record high of HK\$769,370,000, 16% more than the HK\$665,320,000 in 2004. Sales of rare earth products (including fluorescent materials) was HK\$345,243,000, an increase of 15% from HK\$300,984,000 in the previous year, accounting for 45% of the Group's total turnover. Sales of refractory materials (including high temperature ceramics) accounted for 55% of the Group's total turnover, an increase of approximately 16% from HK\$364,336,000 last year to HK\$424,127,000.

Profit before taxation of the Group reached HK\$171,646,000, representing an increase of 23% as compared to

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了23%。然而由於本集團旗下附屬公司宜興新威利成稀土有限公司及宜興新威利成耐火材料有限公司的「兩免三減半」稅務優惠期已屆滿，而於本年度開始需要繳交全額之中國企業所得稅，以致使本年度的稅項上升至40,021,000港元，與去年之17,973,000港元比較上升接近123%。因此，本年度的溢利較去年僅上升約9%至131,625,000港元。每股盈利由去年之12.3港仙上升至13.2港仙。毛利率及淨利率分別為27%及17%。

股息

董事會建議派發二零零五年度之股息每股4港仙。倘若股東於二零零六年六月十五日舉行的股東週年大會中通過有關動議，末期股息將於二零零六年六月二十三日或以前派發給於二零零六年六月十五日登記冊上的股東。

本公司將於二零零六年六月十二日至二零零六年六月十五日，包括首尾兩天，暫停辦理股份過戶手續，期間將不會進行任何股份之過戶登記。如欲獲得建議之末期股息及出席本公司的股東大會，所有股份之過戶文件連同有關之股票須於二零零六年六月九日下午四時前送達本公司股份過戶處香港分處香港中央證券登記有限公司。

業務回顧
稀土業務

二零零五年度，隨著磁性材料及熒光材料行業的迅猛發展以及國家加大對礦山和環保的監管力度，雖然從二零零五年五月一日起已經取消了稀土產品的出口退稅，稀土行業的形勢仍呈現上漲的趨勢。二零



HK\$139,283,000 in 2004. However, the two-year exemption from Enterprise Income Tax ("EIT") and 50% reduction for the three years thereafter (兩免三減半) previously granted to its subsidiaries, Yixing Xinwei Leeshing Rare Earth Company Limited and Yixing Xinwei Leeshing Refractory Materials Company Limited, had expired. Starting from the year under review, these subsidiaries have to pay the full EIT amount. As a result, taxation for this year increased to HK\$40,021,000, nearly 123% higher than last year's HK\$17,973,000. Profit for the year slightly increased by 9% to HK\$131,625,000 as compared with 2004. Earnings per share increased to HK13.2 cents from last year's HK12.3 cents. Gross profit margin and net profit margin were 27% and 17% respectively.

DIVIDEND

The Board has recommended the payment of a final dividend of HK4 cents per share for 2005. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 15 June 2006, the final dividend will be paid on or before 23 June 2006 to registered shareholders as at 15 June 2006.

The Register of Members will be closed from 12 June to 15 June 2006, both days inclusive. During this period, no transfer of shares will be registered. To qualify for entitlement of the proposed final dividend and to attend the Annual General Meeting, all transfer documents accompanied by the relevant share certificate must be lodged with the Company's Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, for registration not later than 4:00 p.m. on 9 June 2006.

BUSINESS REVIEW
Rare Earth Business

In 2005, the magnetic materials and fluorescent materials industries developed rapidly. Despite that the Government stepped up regulation of mining and environmental protection, and export tax rebate for rare earth products has been cancelled since 1 May 2005, the rare earth industry still continued to

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零五年度，本集團共售出了約4,400噸稀土及有關下游產品，比二零零四年增長了7%，使本集團稀土業務的營業額由去年的300,984,000港元上升至345,243,000港元，增幅達15%。但各元素間的市場表現依然不平衡，其中佔本集團稀土產品銷售中比重較大的氧化釹及氧化鐳，其二零零五年度的平均售價較二零零四年上漲了超過20%。而氧化銻及釷銷共沈則維持二零零四年水平。為針對個別產品的價格變動，本集團的銷售組合亦有所調整，如減少銷售價格跌幅較大的氧化釷而增加了銷售價格上漲較多的氧化鐳。

成本方面，大部份原輔材料的價格均較二零零四年上升。稀土礦材方面因國家對稀土資源的收緊政策而使其價格上升了超過15%。主要輔料如草酸的價格上升了10%，液碱的上升幅度更超過15%。然而亦有部份輔料價格出現下調，如鹽酸的價格下降了約10%。稀土產品取消了出口退稅的轉變亦增加了出口成本。故二零零五年度本集團稀土業務的毛利率只能維持在約15%，與去年相若。

熒光材料業務受惠於中國電力供應緊張及中國政府加快建設節約型社會的政策，業務保持穩定增長。拋光材料業務現時仍處於市場開發階段，客戶一般仍依賴外國進口產品，故暫時未能形成具規模的銷售。但本集團有信心當產品能打出品牌後，拋光材料對本集團的稀土業務將有重大貢獻。

develop. In 2005, the Group sold approximately 4,400 tonnes of rare earth products and downstream products, an increase of 7% from that in 2004. Turnover of its rare earth business increased by 15% to HK\$345,243,000, as compared to HK\$300,984,000 in the previous year. The performance of individual element markets however varied. In 2005, the average prices of neodymium oxide and dysprosium oxide, the major contributors of its rare earth business, increased more than 20% from that in 2004, while the prices of terbium oxide and mixture of yttrium and europium maintained at the 2004 level. The Group adjusted its sales mix taking into account the change in product prices, it sold less products such as yttrium oxide which prices had dropped markedly, while increasing the sales volume of products, such as dysprosium oxide, which prices had hiked.



As for the production cost, the prices of most raw and auxiliary materials rose as compared with 2004. The country tightened its control on rare earth resources and prices were pushed up more than 15%. The price of oxalic acid, its major auxiliary material, increased by 10%, and the price of liquid alkaline surged even higher by over 15%. The prices of certain auxiliary materials, however, decreased. The price of hydrochloric acid, for instance, dropped around 10%. The cancellation of export tax rebate for rare earth products also created negative impact on export costs. Therefore, the gross profit margin of its rare earth business remained at around 15% in 2005, similar to last year.

Benefited from the tense power supply in China and the Government encouraging energy conservation in the community, its fluorescent material business recorded steady growth. Currently, the polishing powder material market is still developing with most customers still relying on products imported from overseas, hence the Group's products has yet to report meaningful sales. However, the Group is confident that, after establishing a renowned brand, this segment will become one of the major revenue contributors of its rare earth business.

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市場分佈方面，中國經濟的急速增長帶動本土需求，加上中國的生產成本及資源優勢吸引大量外商於中國設立生產基地，令回顧年內中國市場佔本集團稀土產品銷售額的比例由去年的66%進一步上升至72%。海外市場所佔比例相對下調，日本地區佔銷售額的8%，歐洲則佔12%。

耐火材料業務

本集團的耐火材料業務繼續保持穩定發展。雖然近年中國政府對房地產、冶金、建材等行業的宏觀調控，使耐火材料的市場需求增長有所放緩。然而在高溫陶瓷業務開拓的配合下，二零零五年本集團耐火材料的總銷售量達到79,400噸，較去年上升12%。銷售額則上升16%至424,127,000港元。產品售價平



穩，主要產品如電熔鎂鉻磚和鋁碳磚的售價與二零零四年比較基本持平，而鎂英石磚、鎂鋁尖晶石磚及AZS磚等的價格升幅在3%至5%之間。於本年度末本集團更積極推銷毛利較高的不定形澆注料。而近期開發的賽隆系列產品亦於本年度售出約2,300噸。成本方面，原輔材料的價格依然呈上升趨勢，如主要材料如鎂英砂及電熔鎂鉻砂的價格比去年上升了超過30%，而剛玉砂及棕剛玉的價格則變化不多。電熔鎂砂的價格按不同等位亦有介乎3%至5%之間的升幅。燒結產品所需的重油的價格亦上升了超過10%。然而本集團透過加強內部管理及努力降低成本，使毛利率仍可保持在30%以上。

Regarding market distribution, rapid development of the PRC economy has pushed up domestic needs. That plus the growing number of foreign companies attracted to set up base in the country to benefit from the low cost yet resources rich environment, the proportion of sales of rare earth products from the PRC market increased from 66% in 2004 to 72% during the year. The percentage of sales from overseas markets dropped slightly. Currently, the Japan market and the European market accounted for 8% and 12% of the Group's total sales respectively.

Refractory Materials Business

The refractory materials business maintained stable growth. Although the Chinese Government's macroeconomic control measures on the property, metallurgy, construction materials sectors dragged down demand for refractory materials during the year, the Group managed to increase sales of the material by stepping up development of its high temperature ceramics business. In 2005, total sales volume of refractory materials reached 79,400 tonnes, 12% more than that in the previous year. Sales amount increased by 16% to HK\$424,127,000 and product prices were stable. The prices of major products, such as fused magnesia-chrome bricks and alumina-graphite bricks, stayed at the 2004 level, but the prices of zircon bricks, magnesia-alumina spinel bricks and AZS bricks increased by 3% to 5%. The Group intends to actively promote its various high margin unshaped casting material at the end of this year. About 2,300 tonnes of products of the recently launched Sialon series were also sold. Regarding production costs, both raw and auxiliary materials costs continued to rise with the prices of major materials, including zircon sand and fused magnesia-chrome grains, 30% more expensive than last year. The prices of emery and brown corundum remained steady, while the prices of different grades of fused magnesia grains increased by 3% to 5%. The price of heavy crude oil, a necessary material for producing sintering products, also rose over 10%. However, at the Group's strengthened internal management and cost control, gross profit margin was kept at above 30%.

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本集團一直積極尋找與耐火材料原料供應基地的合作機會，務求組建縱向產業鏈，締造更佳成本效益。於二零零五年十二月，本集團收購了蘇海鎂礦全部股本權益。蘇海鎂礦為本集團生產耐火產品之主要原料電熔鎂砂之材料供應商，收購有助穩定本集團耐火產品原料之供應及降低耐火產品之銷售成本。由於此項收購於年底完成，故有關的財務貢獻將於二零零六年的合併財務業績內才開始反映。



The Group has been actively seeking opportunities to co-operate with raw material suppliers of refractory materials to create a vertical industrial chain, and in turn enhance production efficiency. In December 2005, the Group acquired entire equity interest in its supplier Suhai Magnesium, which has been providing it with fused magnesium grains, a major raw material of refractory products. Guaranteeing a stable supply of materials for producing refractory products, the acquisition helps to reduce the cost of sales of the Group's refractory products. As the acquisition was completed at the end of last year, the financial contribution of Suhai Magnesium will commence be reflected in the 2006 consolidated financial statements.

耐火材料的市場分佈仍以中國為主，出口約佔耐火材料銷售總額的18%。

The PRC is still its principal market for refractory materials. Export value accounted for approximately 18% of the total turnover from refractory materials.

展望**稀土業務**

隨著全球經濟持續復甦，稀土市場亦出現增長。隨著稀土技術的不斷發展和應用，稀土氧化物延伸產品市場需求的增長將日益加快，價格亦將持續攀升。本集團將繼續致力發展稀土深加工產品，尤其在熒光材料業務方面，本集團對這市場的前景非常樂觀。目前中國在照明方面的用電率高，加上中國計劃在二零零八年舉辦奧運會前推廣使用節能燈，均為本集團的熒光材料業務帶來龐大商機。

PROSPECTS**Rare Earth Business**

As the global economy revives, the rare earth market also shows signs of growth. The continuous development of rare earth technology and application has bred a growing demand for the downstream rare earth oxide products and in turn sent product prices on the up trend. The Group will continue to develop valued-added rare earth products, in particular fluorescent materials, in which it is seen brilliant prospects. Currently, the PRC consumes much power for lighting. With the Chinese Government planning to push the use of energy-saving lights in the advent of the 2008 Beijing Olympics, the Group's fluorescent material business is presented with immense opportunities.

從二零零六年開始，本集團的熒光材料已開始出口日本及韓國市場。於二零零六年三月，本集團與韓國一家大型的熒光體應用商簽署協定，建立長期合作關係。該韓國應用商將向本集團大量訂購熒光材料產品，亦協助於韓國推廣本集團之產品。該韓國應用商將成為本集團

The Group commenced export of fluorescent materials to Japan and Korea in 2006. In March 2006, the Group signed an agreement with a large fluorescent materials user in Korea, marking the beginning of a long-term cooperative relationship. The Korean user will order large quantities of fluorescent materials from the Group, and help to promote the Group's products in Korea. This customer will be the largest customer of the Group's fluorescent material

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熒光材料業務的最大客戶。此舉標誌本集團熒光材料出口海外市場正式啓動。有助提升本集團的熒光材料產品的國際知名度及市場佔有份額。

另外，於二零零六年二月，本集團與全球最大綜合企業集團之一的美國通用電器集團訂立策略聯盟協議。通用電器於過去數年一直是本集團的客戶，現通過該聯盟協議，通用電器將大量增加給予本集團的訂單，訂購更多不同種類的稀土產品，用於生產通用電器旗下各公司的產品，包括醫療設備、燈具及汽車等。此外，通用電器更會為本集團提供技術支援，有助本集團拓展產品的應用範疇及規模。本集團日後將尋求更多類似的合作及建立策略聯盟機會，務求提升技術水平及取得協同效益。



在技術領域方面，本集團自主開發的稀土氧化物納米粉體材料的工業化製備技術已於二零零六年二月成功通過江蘇省科學技術廳的成果鑒定，獲一眾專家的高度評價。這一成果標誌了本集團於稀土產品的技術上又跨出了一大步，不僅在稀土產品的純度上技術領先，現對其體積大小的控制亦有超卓表現，更能迎合稀土應用新產品中越趨嚴緊精確的規格。生產技術水平的提高，不但可降低生產成本，新產品能滿足對質素要求高的客戶更可為本集團提供更高的利潤空間。

另一方面，本集團預期稀土資源的供應將隨著中國政府對資源保護的政策而漸趨緊張。本集團將努力爭取得到原材料

segment. The partnership signified entry of the Group's fluorescent materials into overseas markets, and is expected to help enhance awareness of the Group's brand and the share of its fluorescent materials in the international market.

In February 2006, the Group forged strategic alliance with General Electric Company, one of the largest integrated business corporations in the world. General Electric has been a customer of the Group for the past several years. Pursuant to the terms of the alliance, General Electric will increase order for various rare earth products from the Group to be used by its different subsidiaries in the manufacturing of products including medical equipment, lighting equipment and automobiles, etc. General Electric will also provide technical support to the Group to help it extend the applications and production scale of rare earth products. The Group will continue to seek similar cooperation and strategic alliance opportunities in its bid to enhance technological capability and reap synergistic benefits.

On the technology front, the rare earth industrialized technology for nano-grade rare earth oxide materials developed by the Group passed the appraisal of the Jiangsu Science and Technology Department in February 2006, earning high acclaims from experts. This achievement represents a great leap made by the Group in advancing rare earth product technology. The Group not only boasts top-notch technology in producing rare earth products of high purity, but also stands out in its ability to control the size of rare earth products. This enables the Group to match the increasingly stringent specifications of new products with rare earth materials as components. Apart from helping to reduce production cost, with enhanced technology, the Group will be able to provide products that meet the requirement of quality conscious customers and assure higher profit.

The Group expects the supply of rare earth resources to tighten as the Chinese Government pushes ahead with its resources protection policy. In that light, the Group will continue to look for

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供應的保障。一方面繼續尋找合適的礦山資源投資機會，另一方面亦繼續與一眾供應商保持緊密關係。另外，本集團將繼續致力研究生產更多高附加值深加工產品，從而擴寬市場領域及開拓產品種類，務求早日形成縱向產業鏈。

耐火材料業務

耐火材料業務一直保持穩定的增長及為本集團帶來穩定的盈利貢獻。本集團將繼續提升現有的生產設備水平，並借助國外先進技術，繼續增加中高檔耐火材料產品的生產比重及提高產品質量，以加強本集團的競爭能力和保持在行業中的領導地位。

本集團將繼續高溫陶瓷的業務發展，賽隆生產線的第二階段擴能改造工程已籌備展開，以配合未來業務增長所需。市場方面，本集團計劃將於二零零六年開始出口高溫陶瓷到俄羅斯，為業務打開海外市場。

而主要應用在玻璃纖維生產設備的緻密鎢磚、緻密鉻磚生產線的組裝已經初步完成，現即將完成整項生產設備配套及技術調試，準備投入生產。目前，銷售及市場推廣部門正進一步向

客戶推廣此產品，相信這將為本集團耐火材料的業務帶來新增長動力。



於二零零五年末收購蘇海鎂礦標誌著本集團建立縱向產業鏈的重要一步，此舉不但可保障部份原料的供應和降低成本，將蘇海鎂礦部份產品銷售給其他廠家亦為本集團提供額外的收入來源。現

opportunities to invest in rare earth mine resources with the aim of securing stable supply of raw materials. At the same time, it will also seek to maintain optimum relationship with its suppliers. Moreover, the Group will continue to develop and produce more high value-added products, which will allow it to expand market coverage, diversify product offerings and speed up creation of a vertical industrial chain.

Refractory Materials Business

Refractory materials business has been growing steadily and contributing stable earnings to the Group. To boost the competitiveness and leadership of its refractory material products, the Group will continue to upgrade existing production facilities and increase the proportion and quality of the middle to high end refractory material products by bringing in advanced technology from overseas.

The Group will continue to develop its high temperature ceramics business. Second phase capacity expansion work of the Sialon production line is ready to commence to meet the requirement of the Group's growing operation. The Group also plans to begin exporting high temperature ceramics to Russia in 2006 to tap the overseas market.

The preliminary stage of installation of production lines for highly densified zircon and highly densified chrome bricks, which are used mainly in glass fibre production facilities, is completed. Fine-tuning of the entire set of production facilities and techniques is in the final stage and production will commence soon. The sales and marketing department is actively promoting this product to

customers. The Group believes the new product line will emerge as a new growth driver for its refractory materials business.

The acquisition of Suhai Magnesium in late 2005 was a major strategic move in the Group's bid to establish a vertical industrial chain. This move will enable the Group to secure supply of certain raw materials and reduce costs. The sales of certain products of Suhai Magnesium to other manufacturers will also present to the

主席報告書 CHAIRMAN'S STATEMENT

時本集團更有意利用蘇海鎂礦在遼寧當地的優勢，計劃擴充其生產設備，以增加其產品種類，提升經濟效益。另外，本集團將繼續留意與其他耐火材料原料供應基地的合作機遇，致力令原料供應更有保證及成本控制更具效益。



Group an additional income stream. The Group recognizes the local advantages Suhai Magnesium enjoys in Liaoning Province, hence it intends to expand its production facilities to broaden its product offerings and maximize economies of scale. It will also seek cooperation opportunities with other refractory material suppliers to guarantee stable raw material supply and better control cost.

兼併收購

本集團於二零零五年十二月二十三日訂立股權轉讓協議，收購了蘇海鎂礦的全部股本權益，總代價折合約為115,385,000港元，由本集團之內部資源撥付。經審核後，蘇海鎂礦的資產淨值約為52,210,000港元。合併後產生商譽值63,175,000港元。蘇海鎂礦於二零零五年的溢利淨額約為18,184,000港元。由於收購於年末完成，故該項收益並未於本集團二零零五年的合併帳上反映。

蘇海鎂礦為本集團生產耐火產品之主要原料電熔鎂砂之供應商。是項收購將能夠保證日後電熔鎂砂之穩定供應，並透過整合本集團所生產之下游及上游產品以降低耐火產品之銷售成本，為本集團的營運帶來顯著的協同效益。

董事會

隨著范亞軍先生於二零零五年八月十九日的退任，本公司提升了許盤鳳女士及蔣才南先生為執行董事，令董事會執行董事總人數增至四位。由於許、蔣兩人分別在稀土及耐火材料行業內擁有豐富經驗，他們的加入將能加強董事會的實力，使本集團業務有更良好的發展。

MERGER AND ACQUISITION

The Group signed an equity transfer agreement on 23 December 2005 to acquire entire equity interest in Suhai Magnesium at a total consideration of approximately HK\$115,385,000. The consideration was funded by internal resources of the Group. The audited net assets value of Suhai Magnesium amounted to approximately HK\$52,210,000. Goodwill resulted from the merger amounted to HK\$63,175,000. The net profit of Suhai Magnesium amounted to approximately HK\$18,184,000 in 2005. As the acquisition was completed at the end of the year, related revenue was not shown in the consolidated accounts of the Group in 2005.

Suhai Magnesium is the Group's materials provider, supplying fused magnesium grains, a major kind of raw material for the production of refractory products. This acquisition presents clear synergistic benefits to the Group's operations, promising a secure supply of fused magnesium grains and lower cost of sales for refractory products. It brings to the Group marked operational synergies.

THE BOARD OF DIRECTORS

After the resignation of Mr Fan Yajun on 19 August 2005, the Company promoted Ms Xu Panfeng and Mr Jiang Cainan as executive directors, increasing the total number of executive directors to four. Both Ms Xu and Mr Jiang have extensive experience in the rare earth and refractory materials industries. Their appointments will definitely improve the strength of the Board and facilitate business development of the Group.

主席報告書 CHAIRMAN'S STATEMENT

公共關係

為增加透明度，本集團重視與機構投資者及分析師作雙向溝通。本集團向股東、分析師及有興趣人士派發中期及年度報告均提供本集團業務之詳盡資料。本集團亦經常與傳媒保持聯絡，而本集團之新聞稿、公佈及公開資料亦即時發佈予傳媒，解釋最新之業務動向及市場發展計劃。本集團亦經常與基金經理及分析師會面，向他們發放有關本集團業務之財務及其他資料。這些活動讓大眾明瞭本集團之業務及促進有效溝通。

股份配售

本公司於二零零六年進行了一項資金籌集活動。於二零零六年三至四月，本公司以每股售價1.38港元配售了197,390,000股新增股份。交易完成後，本集團已發行股本增加至1,184,343,059股，公眾流通量由原來的39.59%增加至49.66%。扣除費用後本集團共籌集了約264,390,000港元，所得款項淨額將會撥作一般營運資金。

財務回顧

流動資金及財務資源

本集團以現金收購蘇海鎂礦後，於二零零五年十二月三十一日，本集團持有現金及銀行存款約值153,442,000港元而無銀行貸款。

本集團於年末的流動資產淨額約為666,933,000港元。總負債對總資產的比率約為9%。

匯率風險

本集團大部份之資產、負債及交易均以人民幣、美元及港元列值。鑑於美元及港元之匯率於年內相對穩定及人民幣的升值幅度有限，故本集團並無面臨重大的外匯風險。

PUBLIC RELATIONS

The Group understands the importance in maintaining a highly transparent operation, hence values communications with institutional investors and analysts. It dispatches interim and annual reports to shareholders, analysts and interested parties, detailing information about the Group's operations. It maintains close contact with the media. Press releases, announcements and public information in relation to the Group's latest business development and marketing plans are released in a timely manner. The Group also meets with fund managers and analysts regularly to update them on the Group's financial and other information. These initiatives have helped to deepen public understanding of the Group and its business and facilitate communication.

PLACING OF SHARES

The Company conducted a fund raising activity in 2006. In March to April 2006, the Company placed 197,390,000 new shares at HK\$1.38 per share. Upon the completion of the placing, the issued share capital of the Group increased to 1,184,343,059 shares and the public float increased from 39.59% to 49.66%. The net proceeds from the placing amounted to approximately HK\$264,390,000. The Company intends to use the fund raised as general working capital.

FINANCIAL REVIEW

Liquidity and Financial Resources

Subsequent to the settlement of consideration for the Suhai Magnesium acquisition by cash, the Group had cash and bank balances of approximately HK\$153,442,000 as at 31 December 2005. There was no bank borrowings.

The Group had net current assets of approximately HK\$666,933,000 as at the end of the year. Total liabilities to total assets ratio was 9%.

Exchange Exposure

Most of the Group's assets, liabilities and transactions are denominated either in Renminbi, US dollars or Hong Kong dollars. As the exchange rate between US dollars and Hong Kong dollars remained stable during the year and the appreciation of Renminbi was moderate during the year, the Group was not exposed to material foreign exchange risk.

主席報告書 CHAIRMAN'S STATEMENT

資產抵押

於二零零五年十二月三十一日，本集團的資產中有約值327,000港元的銀行存款已作抵押擔保以獲得短期貿易融資。

或然負債

於二零零五年十二月三十一日，本集團並無重大或然負債。

僱員及薪酬

於二零零五年十二月三十一日，本集團僱用員工約1,650人，包括多名大學畢業生及經驗豐富的專業翹楚。本集團為員工提供完善的薪酬及福利制度。回顧年內，僱員成本包括董事酬金合計約為21,046,000港元。本集團實施購股權計劃，適時授與表現出眾的員工，以鼓勵其對本集團的貢獻。人才乃本集團業務最重要的資產。本集團將繼續招聘及訓練人才，並提供一系列在職訓練計劃，以提升員工的競爭力。

致謝

本集團能有今天的成績，實有賴全體員工多年來努力不懈，以及得到各股東、投資者、客戶、供應商及業務夥伴一直以來對本集團的信賴與支持。在此，本人謹代表董事會及管理層向彼等致以最衷心的謝意。

主席
蔣泉龍

香港，二零零六年四月二十日

Pledge of Assets

As at 31 December 2005, bank deposit valued at HK\$327,000 in the Group's assets was pledged as guarantee for the short term trading facilities.

Contingent Liabilities

As at 31 December 2005, the Group had no material contingent liability.

STAFF AND REMUNERATION

As at 31 December 2005, the Group had a workforce of approximately 1,650 staff including young graduates and experienced professionals. The Group has in place a comprehensive staff remuneration and welfare system. During the year, approximately HK\$21,046,000 was incurred in staff costs including directors' emoluments. The Group implements a share option scheme granting options as appropriate to outstanding staff to encourage contribution to the Group. Recognizing that its people is its most valuable asset, the Group will continue to seek and train high calibre staff and provide them with on-the-job trainings to enhance their competitiveness.

APPRECIATION

The Group owes its success to the hard work and dedication of its staff over the years and the continuous trust and support from shareholders, investors, customers, suppliers and business partners. On behalf of the Board and the management, I would like to extend my gratitude to all of them.

Jiang Quanlong
Chairman

Hong Kong, 20 April 2006