

CHAIRMAN'S STATEMENT

To shareholders,

On behalf of the board (the "Board") of directors ("Directors") of Asia Zirconium Limited, I am pleased to present the Group's results for the year ended 31 December 2002 (the "Year 2002").

During the Year 2002, the Group has continued to explore new markets and enhance its product mix to improve profitability. In spite of the slight decrease in the prices of zirconium chemicals in the international market in the Year 2002, the Group managed to achieve satisfactory results through effective management, product structure adjustment, production scale expansion and diversification into higher margin downstream products.

For the Year 2002, the Group recorded profit attributable to shareholders of RMB72,512,000, representing an increase of 31% as compared to RMB55,377,000 for year ended 31 December 2001 ("Year 2001") and an increase of RMB12,512,000 (approximately 21%) as compared to the estimated profit attributable to shareholders of RMB60,000,000 as set out in the Group's prospectus; whereas turnover was approximately RMB267,310,000 in the Year 2002, representing an increase of 17% as compared to RMB229,263,000 in the Year 2001. Basic earnings per share was RMB0.228 for the Year 2002.

The Board has recommended payment of a final dividend of HK\$0.03 per ordinary share for the Year 2002. An aggregate dividend of RMB19,740,000 was proposed for the Year 2002, including a final dividend of RMB12,740,000 payable and an interim dividend of RMB7,000,000 paid.

Review of the Macroeconomic Market

Despite negative macro factors such as declining product prices, increasing competition from smaller PRC competitors and the slump in the IT industry in Japan, the Group has managed to achieve satisfactory results by stepping up its marketing efforts in overseas markets, notably the USA and Europe. Sales to these two markets have seen substantial increase, thanks to China's accession into the WTO as well as the increased use of zirconium chemicals in the cosmetics industry.

On the domestic front, the Open Door Policy has continued to attract foreign manufactures, particularly hi-tech companies, to set up their production facilities in the PRC. This has in turn led to a substantial increase in the Group's domestic sales within the PRC.

Business Review

During the Year 2002, the Group has significantly increased its production capacity for both upstream (such as zirconium oxychloride) and downstream (such as superfine zirconium oxide) products. The increase in production capacity has resulted in higher turnover and profitability as compared to the Year 2001. Gross margin was maintained through stringent cost control, improved economies of scale and continuing diversification into higher margin upstream products.

Through active participation in international exhibitions, more frequent overseas marketing trips and aggressive marketing through the internet, the Group has managed to increase its sales to the USA and Europe substantially. By taking part in a number of trade fairs in the PRC, such as the Guangzhou Trade Fair, the Eastern Trade Fair and the Harbin Trade Fair, domestic sales within the PRC have also seen substantial increase.

By maintaining close and harmonious relationships with its suppliers, the Group has managed to maintain stable sourcing of raw materials at reasonable prices.

Through continuing improvement in energy conservation and more efficient control of wastage, the Group has managed to improve cost efficiency, resulting in lower cost of production for upstream products such as zirconium oxychloride. Performance was further enhanced by improved economies of scale with average plant utilization rate in excess of 90%.

The Group has continued to place heavy emphases on research and development ("R & D"). For example, the Group's R&D effort in nanometric zirconium oxide, amongst other high-tech projects, was included in the "2002 China Torch Program". The Group's products also received a number of accreditations from the Science and Technology Branch of Jiangsu Province.

Prospects

Looking into 2003, it is expected that the Group will sustain brisk growth. Although competition from the Group's international counterparts in the global market as well as price competition from its China counterparts will inflict comparatively significant bearings and risks on the growth of the Group in 2003 and thereafter, the Group will focus on developing deep-processing products as the means to progressively adjust the product mix and expand the PRC market, in order to generate satisfactory profits and therefore a decent return for its shareholders.

According to the provisions of the PRC tax laws, the Group is allowed a 50% reduction in enterprise income tax in 2003 and the 3 years thereafter. Moreover, since the Group is a Jiangsu Province high-new technology enterprise with a number of its products accredited as State and Provincial high-new technology products, it is entitled to favorable treatment in income tax and export tax refund. It is estimated that the Group will be allowed an income tax reduction of more than fifty percent in 2003, which will be significantly beneficial to the Group's net profit level.

Looking into the future, the Group is fully confident in the prospects of zirconium chemicals, given that zirconium is a novel type of material whose application is growing with time in many different areas, from high-new technology industry and cutting-edge products to common industrial products and everyday life. In conclusion, the use of zirconium chemicals is becoming ever more extensive, encompassing ever more diversified scopes and larger markets. In line with these factors, the Group will continue to concentrate on the downstream and deep-processing operations, in addition to the development of zirconium components.

The Group will effectively use its resources so as to accelerate its development progress and realize its objectives of strengthening and expansion. Should projects with munificent return potential arise, the Group will not exclude the possibility of acquisition or developing zirconium derivative products such as battery materials. However, any acquisition will be subject to the interests of the Company and its shareholders.

In view of these, the Group is confident to reach ever higher grounds and generate better returns for its shareholders and investors in 2003.

On behalf of the Board, I would like to express our sincere gratitude to all our customers, shareholders, investors, and our long-term suppliers and business partners for their continued faith, support and services to the Group over the years. Thanks are also extended to our management team and staff for their dedication, support and understanding.

Yang Xin Min
Chairman

22 April 2003