

CHAIRMAN'S STATEMENT

To shareholders,

On behalf of the board of directors (the "Board") of Asia Zirconium Limited, I am pleased to present the results of the Group for the year ended 31 December 2003.

Asia Zirconium has dedicated tremendous effort on research and development ("R&D"), production process streamlining and market expansion strategic plannings. With its competitive advantages in R&D, flexible production process, stringent quality and cost control, the Group has established a leading position in the industry. Despite the continual decrease in the prices of zirconium chemicals in the international market, the Group achieved satisfactory results through rigorous management, product mix enhancement, production scale expansion, active development of new rare metal chemicals products, including new energy materials and electronic ceramics, and diversification into higher margin downstream deep-processed products.



During the year under review, the Group continued its pragmatic approach and successfully extended its coverage in both domestic and overseas markets and expanded its product range to achieve further growth in revenue. As at 31 December 2003, the Group's turnover and profit before taxation amounted to approximately RMB300 million and RMB77 million respectively, representing an increase of 12% and 6% respectively as compared to the same period last year. Earnings per share in 2003 was approximately RMB16.6 cents (2002: RMB22.8 cents). This decrease was primarily due to the expiration of the two-year preferential enterprise income tax free grace period for the plants and the increased number of shares from 318 million to 400 million after listing on the mainboard of the Stock Exchange.

The Board recommended the payment of a final dividend of HK3.7 cents per ordinary share for the year ended 31 December 2003 (2002: HK3 cents per ordinary share).

MARKET REVIEW FROM A MACRO PERSPECTIVE

During the year under review, challenges and opportunities co-existed in the international zirconium chemicals market. The outbreak of SARS epidemic during the first half of the year dampened sentiments in the Asia Pacific Region.

However, the Group managed to keep up with the market pulse by implementing a series of initiatives. With its R&D commitments, pricing strategies, increased investment and resources, the Group further tapped into the US and Europe markets with its prime quality products. As at 31 December 2003, sales to these two markets accounted for 46% of total turnover of the Group.



In the domestic market, along with the liberalization of the PRC market, zirconium chemicals manufacturers entered into a new era in terms of the unprecedented pace of product mix enhancement, technology contents and new products development. In addition, the PRC renders the most favorable investment environment in the world. It has not only attracted foreign investments but also prompted the development of Chinese privatized enterprises. China is now recognised as a world factory. The Group has seized the opportunity of China being the world factory to increase its domestic shares and market presence.

Chairman's Statement (cont'd)

MARKET REVIEW FROM A MACRO PERSPECTIVE (Cont'd)

With discoveries in new applications and usage of zirconium chemicals, certain conventional chemicals such as chromium sulphate and lead chemicals are being replaced by new substitutes. In addition, the increasing number of mobile phone users, coupled with the growing popularity of electronic products such as personal computers and digital cameras, have prompted both domestic and overseas manufacturers to ride on the wave of economic recovery, and hence stimulating a huge demand for rare metal chemical products such as zirconium chemicals, new energy materials and electronic ceramics products.

BUSINESS REVIEW

During the year under review, the Group utilized proceeds raised from the IPO to increase its production capacity and to develop downstream business to satisfy the increasing demand from domestic and overseas markets.

As prices of zirconium products dropped in 2003, and the two-year preferential enterprise income tax free grace period for the Group's plants expired in 2003, the Group's enterprise income tax obligation increased to approximately RMB10 million at a tax rate of approximately 12% for the year, affecting the Group to a certain extent. Thanks to its close relationship with suppliers, the Group was offered certain raw materials price discounts and managed to maintain its profit margin range by improving its production process, producing its own feedstock during the year and accomplishing product mix change with diversification so as to maintain stable profit margin.



In June of 2003, the Group successfully extended to the production of electronic ceramic products, bringing the Group's developments towards a new opportunity. Electronic ceramic products include PTC chips, heating groupware, zirconium ceramic boards and zirconium ceramic components. They are characterized by high heat-conduction, pressure tolerance and long durability, safe and environmentally friendly. They are widely used in air-conditioners and train coolers with huge market demand. The products were put to sale in June 2003 and recorded a revenue of approximately RMB0.76 million.

In September 2003, the Group commenced the development of new energy materials such as hydrogen-storage alloy powder and nickel hydroxide. As at 31 December 2003, the sale of new energy materials had brought RMB9 million of turnover for the Group, representing 3% of the total turnover. The Group expects tremendous growth in the batteries market and that new energy materials will bring the Group's developments towards a new peak.

Capacity expansion and the new products development in the second half of 2003 will be fully extended in 2004 and will render the Group to have a broader revenue base for future years.



Chairman's Statement (cont'd)

FUTURE OUTLOOK

Looking into the future, the Group is optimistic of the future prospects of zirconium chemicals. With the continuous discoveries of zirconium chemicals usage and substitutions of other chemical products, the use of zirconium chemicals will be more extensive than ever, encompassing more diversified scopes and larger markets than ever before. Our commitment to the development of zirconium downstream products and the deep-processing business will reward the Group's shareholders with satisfactory returns.

The new energy material chemical products developed by the Group in 2003 will play a greater role in 2004. On the basis of perfecting and producing more energy materials, the Group will consider extension to NiMH, NiCd and Li-ion batteries. The market share of the newly developed electronic ceramic products, PTC for example, will also increase.



In the foreseeable future, the Group's major business growth driver will be the new energy materials and zirconium chemicals downstream products. The Group is well positioned and has great confidence in capturing larger shares in various markets and bringing the Group's development to new height.

Lastly, the Company would like to take this opportunity to thank all Board members, our senior management team and staff for their dedication during 2003. The Company would also like to express our sincere gratitude to all of its customers, shareholders, investors, long-term suppliers and business partners for their continued trust, support and services to the Group.

Yang Xin Min

Chairman

30 March 2004