

CHAIRMAN'S STATEMENT



To shareholders,

On behalf of the board of directors (the "Board"), it is my pleasure to present the annual results of Asia Zirconium Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2005 (the "Year").

The consolidated turnover of the Group for the Year increased by 19% over the prior year to approximately RMB426 million with consolidated gross profits recorded a slight growth of 4% to RMB106 million. The profit attributable to shareholders for the Year dropped by 4% to approximately RMB62 million. The Board recommended the payment of a final dividend of HK3.3 cents per ordinary share.

REVIEW OF 2005 OPERATIONS

In 2005, benefited from economic growth of European countries, USA and China, the zirconium chemicals market recorded an increasing demand. However, with the continued shortage in supply of raw materials zircon sand and the price remained at a relatively high level, the development of the Group and other zirconium chemicals manufacturers was constrained. Thanks to its leading position in the PRC zirconium market, the competitive edge in technology and scale of production as well as the good relationship with leading overseas zircon sand suppliers, the Group still recorded a double-digit growth for its consolidated turnover. The growth of the Group's consolidated turnover mainly came from the zirconium compounds segment, followed by increased sales of batteries. The Group will continue to focus on research and development of new zirconium chemicals and further enhance the product structure, aim to strengthen the principal businesses, perfect product mix and further enhance the core competitiveness. At the same time, along with keeping good partnership with existing leading suppliers of raw materials, the Group also actively seek opportunities to cooperate with other new suppliers. By finding the soonest way of solving the shortage in raw materials supply, the Group would be able to accelerate the pace of development, thus capturing on the favorable opportunity of the booming zirconium chemicals demand and achieve a growth in both revenue and profits.

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The businesses of new energy materials and rechargeable batteries achieved a mix result after a year's cultivation. While considerable market share was achieved, the products suffered persistent pressure on price due to fierce market competition. Coupled with adverse factors including the escalating price of raw materials exerted pressure on the gross profits of the two segments and posed negative impact on the Group's overall profitability. The impact, however, has been minimised through tighter supervision of production process and cost control by the management and continuous improvement of product quality which increased its competitiveness in the market.

FUTURE PROSPECT

Global demand for zirconium is still surging. This is mainly reflected by the utilisation and development of nuclear power in China and certain developing countries which brought new opportunities of development to the zirconium industry. Along with the improvement and enhancement of living standard of developing countries, in particular China, came an uprising demand for oxidised zirconium ceramics such as daily use ceramics, hygienic ceramics, construction ceramics, electronic ceramics and structural ceramics.

Cosmetic industry still maintained a growth trend. At the same time, zirconium products of the PRC were actively kept up with the international standard. This, in particular, applied to the Company. The Company has invented a new product of zirconium carbonate for use in paper manufacture, which is operated in mass production and has entered the international market. Further, the Company is developing a new type of zirconium carbonate for use in the catalyst industry (mainly used in processing of exhaust gas of automobiles).

The market of artificial jewelry industry is rapidly shifting from places like Thailand, India and Taiwan to China. Usage of zirconium in the artificial jewelry industry will be our new source of development and growth in 2006 and the coming years.

With preparation work done during the past 3 years, electronic ceramic products were fully granted production permits from the PRC authorities and certifications from the quality and environmental protection organisations, as well as CE certification for entering the European market. Therefore, electronic ceramics will develop rapidly from 2006 onwards following a several years' standstill.

The investment in batteries is expected to break away from deficit with almost 2 years' preparation and cultivation. It is believed that high temperature NiMH batteries with zirconium additive will bring new contribution to the Group in the future. Research and development of Li-ion power batteries will be another main focus of development of the Company in the years to come, which meets the need and direction of new energy development.

It is believed that in the coming 3 years, the Company will expedite in removing itself from the plight of batteries and electronic ceramics and do its best to realise new growth. As to the zirconium industry, the Company will continue to focus on refined processing technology of zirconium, further develop high value-added zirconium products and strive to further enlarge its market share in the zirconium industry so as to establish Asia Zirconium's brand and position among domestic counterparts and in global markets.

Yang Xin Min

Chairman