

CHAIRMAN'S STATEMENT



To Shareholders:

I am pleased to present the annual report of Chongqing Iron & Steel Company Limited for the year ended 31st December 2005 for consideration.

OPERATING RESULTS

Year 2005, a challenging year for the PRC steel industry, witnessed a noticeable price hike in international iron ore pushing up cost of steel products. As affected by the soaring steel production capacity and the PRC's macroeconomic control together with the intensified market competition and declining prices from April 2005, the steel profitability of the Company recorded a considerable shrink. For the year ended 31st December 2005, the Company's sales amounted to Rmb8,856,126,000, an increase of Rmb304,203,000 or 3.56% over last year, whereas profit before tax amounted to Rmb275,644,000, a decrease of Rmb596,512,000 or 68.40% from last year.

1. Adjusting marketing strategies to strengthen sales

In response to the volatile and changing steel market during 2005, the Company further perfected its market feedback and alarming mechanism by keeping a close eye on market dynamics and providing quality pre-sales, in selling and after-sales service to the customers. The Company also actively advanced the establishment of strategic partnership with promising large and medium enterprises to boost its product sales. For the year ended 31st December 2005, the Company sold 2,396,100 tonnes of steel products (billets), representing an increase of 4.48% from last year. With balanced output and sales, the collection rate of accounts receivable is 101.25%.

2. Scheduling thoughtfully to ensure steady growth of output

Focusing on efficiency, the Company strengthened its production management and coordination between production and marketing with stresses on its iron smelting plant's "Reducing consumption and cost with steady operation", steel smelting plant's "Fully exploring potential to maximise efficiency and output", and steel rolling plants' "Scheduling effective production with a focus on orders", thus ensuring a steady growth of output. For the year ended 31st December 2005, the Company produced 1,142,100 tonnes of coking coal, 2,201,100 tonnes of pig iron, 2,539,700 tonnes of steel and 2,371,300 tonnes of steel products (billets). Save for a slight decrease in pig iron, production of coking coal, steel and steel products (billets) recorded an increase of 1.45%, 1.58% and 5.37% respectively over last year. The Company's production of cold rolled thin plates is turning normal gradually with steady improvement in all benchmarks.

OPERATING RESULTS *(continued)*

3. Improving product quality to secure market credit

To ensure the quality of raw materials, the Company took efforts in quality monitoring, follow-up and random check of bulk materials and fuels to facilitate alarming and quality appraisal on raw materials from suppliers. An inspection centre for ancillary materials was also set up with an appraisal system for quality of ancillary materials. Progress was made in quality initiatives focusing on steady improvement in steel smelting output quality. For the 44 quality indicators of its major products during 2005, the Company recorded a plan-completion ratio of 100%, up 7.50% over last year. The passing rates of steel and steel products (billets) amounted to 99.48% and 98.23%, a year-on-year rise of 0.02% and 0.01% respectively. In 2005, the Company passed the examination on its inspection-free steel plate series by China Special Equipment Inspection and Research Center. Its quality carbon steel coil and industrial structure using steel are honoured as Chongqing's famous branded products.

4. Developing high profitable products to address market needs

Insisting on in-depth market research and addressing customer needs, the Company developed target-oriented new products to explore market penetrations. In 2005, the Company developed 9 new products. Production of new and specialized products amounted to 406,000 tonnes or Rmb1,396,000,000.

5. Saving energy, consumption and cost to improve technical and economic indicators

In 2005, the Company made an all-out effort in "Retrenchment year" activities, taking technological and innovative initiatives to advance systemic energy saving and consumption reduction as well as comprehensive utilisation of energy, this resulted in a 0.33% decline in total energy consumption and a decline of 14kg standard coal/per tonne in aggregate energy consumption per tonne of steel along with its increasing output. Among the 45 comparable technical and economic indicators, 34 items showed noticeable year-on-year improvement and 25 hit historical new highs.

6. Advancing technological improvement to sharpen competitive edge

In 2005, the Company implemented 21 technological renovation projects aiming at optimising work process, improving product quality, expanding production scale and handling pollution, which contributed to the improvement in technical and economic indicators, competitiveness and environment.

PROSPECTS

In 2006, the first year of the “11th Five-Year Plan”, the PRC will continue its prudent monetary policies to maintain a steady and fast economic growth. Meanwhile, the growing investment in national fixed assets will provide a market niche for steel products. However, the profitability of steel products is expected be impacted by the lingering domestic steel oversupply and high prices of materials and fuels including iron ore and coal. Adhering to scientific development concept and market-oriented approach, the Company will continue to restructure its product mix and actively expand marketing channels, as well as strengthen management and cut down cost for a higher profitability.

Gratitude

I hereby would like to express my gratitude to the sincere trust and full support of all shareholders, the dedication of all directors and supervisors and the diligence of staff which contributed to the development of the Company with desirable results achieved.

Tang Min Wei
Chairman

Chongqing, the PRC
30th March 2006