

To all shareholders,

I am delighted to report the operating results of the Group for the year 2001.

Turnover of the Group amounted to RMB9,548 million, representing a 16.64% increase over the previous year. Under PRC accounting standards and regulations, profit from principal operating activities amounted to RMB1,282 million, an increase of 7.56% over the previous year. Net profit amounted to RMB208 million, a growth of 18.39% compared to the previous year. Under Hong Kong accounting standards, profit from principal operating activities amounted to RMB1,318 million, an increase of 8.15% over the previous year. Net profit amounted to RMB152 million, a growth of 52.03% compared to the previous year.

In 2001, the Company achieved progress in production, equipment upgrading and development of new technology and products, with details as follows:

- **Production output grew steadily.** By improving process security, optimising logistics and increasing coordination, our production activities were being conducted in an upbeat pace. Production volumes of pig iron, steel and steel products amounted to 4,640,000 tonnes, 4,770,000 tonnes and 4,430,000 tonnes, respectively.
- **Increased progress was seen in process restructuring.** The converter furnace project with the complementary installation of a continuous billet casting machine at No.1 steel-making plant, the ball-shaped iron-ore modification project at No. 1 sintering plant and the No. 4 blast furnace project of the heat and electricity supply plant were completed at different stages during the year, putting a historical end to open-hearth furnace smelting, hot-ore sintering and massive gas discharge of the blast furnace. Construction of the thin plate facility started on 18 December 2001.
- **Greater efforts were made in technological upgrade projects and product development.** The capacity expansion of machine No. 3 at No. 2 sintering plant and the modification of boiler No. 3 at No. 2 iron-making plant had been completed during the year and reached their full capacity within a relatively short period of production. Hot-rolled H-shaped steel bars were listed as a part of national plans for trial production of new products. New products designed to meet market needs were developed, including BS50B and 55C H-shaped steel piles, BSG460 spiraling steel bars and B-grade anti-corrosion vessel plates. A total of 504,000 tonnes of new products were developed during the year. Meanwhile, Magang Technology Centre was upgraded to a technology centre of national status.

- **Further improvements were made in major technical and economic indicators.** The utilisation factor of the 2,500 m³ blast furnace was well above 2.4. The utilisation factor of the medium blast furnace was above 2.7. The production ratio of medium steel materials reached 98%, which was above industry average. On a consolidated basis, an average unit coal consumption rate was reduced to 890 kilograms of standard coal for each tonne of steel produced. Manufacturing costs for products were relatively reduced by RMB563 million or 6.9% compared to 2000.
- **Balance was achieved between production and sales.** A total of 4.44 million tonnes of steel products were sold, including 510,000 tonnes of H-shaped steel bars. Production to sales ratio was 100.2%. The payment collection ratio reached 100.5%, including a cash revenue collection ratio of 95.6%. Both ratios were above industry average. Accounts receivable was reduced by RMB148 million as compared to the beginning of the year. A total of 416,200 tonnes of steel products were exported, generating foreign currency income of US\$88,160,000.
- **Strong financial status was achieved.** Under PRC accounting standards and regulations, total assets of the Group amounted to RMB16,723 million as at 31 December 2001. The Group's capital structure comprised shareholders' funds and bank loans. Out of the bank loans portion, long-term loans amounted to RMB837 million and short-term loans amounted to RMB1,233 million. The loans were mainly denominated in Renminbi. All the loans were subject to fixed interest rates as prescribed by the State.

The Company's financial conditions had been further improved compared to year 2000. The Company's liabilities and bank borrowings were reduced by RMB23.38 million and RMB857 million, respectively, as a result of increased sales and profits. Reduction in the Group's liabilities was mainly attributable to a decrease in bank borrowings, with minor movements in total assets and shareholders' equity. Increases in profit from principal operating activities and net profit were mainly attributable to an increase in sales.

In 2001, the Company committed a total investment of RMB691.98 million, which was financed through the Company's internal resources and bank loans, mainly for the following projects: 1) No. 1 steel-making plant's converter furnace project, which was completed and put into operation on 28 February 2001; 2) the continuous billet casting machine at No. 1 steel-making plant, which was completed and put into operation on 11 August 2001; 3) the technological upgrade of the train wheel rolling system, for which equipment is being ordered and civil construction works are underway; 4) the coke dry quenching project for which equipment is being ordered and civil construction works are underway; 5) the gas recycling scheme at No. 3 steel-making plant, which was completed and put into operation on 6 March 2002; 6) the blast furnace project of the heat and electricity supply plant, which was completed and put into operation on 1 July 2001; 7) the new ball-shaped iron-ore production line, which was basically completed on 18 July 2001.

Chairman's Statement

In 2002, the Group plans to produce 4,800,000 tonnes of pig iron, 5,000,000 tonnes of steel and 4,680,000 tonnes of steel products. Production to sales ratio for steel products is targeted at 100%. We also plan to realise a 100% payment collection ratio and a cash collection ratio of over 95%. We intend to lower comparable costs by 5% and to develop 600,000 tonnes of new products. Strategies and actions will be implemented to:

- Achieve high efficiency at low costs;
- Develop a marketing system that is fit for market competition;
- Accelerate process restructuring as specified by the Tenth Five-Year Plan in relation to the Company's principal iron and steel business and procure the full implementation of the 13 key projects, the most important one of which will be the thin plate construction project; and
- Develop systems and institutions that are in tandem with the modern enterprise system.

For 2002, the major new and in-progress projects include 11 key projects such as the thin plate facility. The amount of capitalised expenses for the year 2002 is estimated to be RMB1,902,000,000, mainly financed by the Company's internal funds and bank loans.

Gu Jianguo

Chairman

15 April 2002

Maanshan City of Anhui Province, the PRC