

CHAIRMAN' STATEMENT



I am pleased to submit the Annual Report of the Company for the year ended 31 December 2001 and extend my regards to all the shareholders of the Company on behalf of the Board.

Operating Results for 2001

In accordance with IAS, the Company recorded a net profit of Rmb366,481,000 for the year ended 31 December 2001, representing a 25.42% decrease as compared with the previous year, and basic weighted average earnings per share was Rmb0.124.

In accordance with PRC Accounting Standards, the Company recorded a net profit of Rmb403,743,000 for the year ended 31 December 2001, representing a 17.97% decrease as compared with the previous year, and weighted average earnings per share was Rmb0.137.

Profit Appropriation

In accordance with PRC regulations, the Company recorded a net profit of Rmb403,743,000. The Company transferred Rmb41,032,000 to each of the statutory surplus reserve fund and the statutory public welfare fund. The undistributed profit at the beginning of 2001 was Rmb724,034,000 and the distributable profit as at 31 December 2001 was Rmb1,042,838,000 after deduction of dividends paid for 2000 of Rmb2,875,000. The Board recommends a profit distribution for 2001 of Rmb0.08 in cash per share (tax inclusive). Shareholders whose names appear on the register of members at the close of trading on 15 April 2002, being the record date for the distribution of dividends, will be entitled to receive the proposed dividend payment. This proposal is subject to shareholders' approval at the Company's annual general meeting for 2001.

Business Review

1. Production of major products: In 2001, the Company produced 3,931,000 tonnes of steel products, representing an increase of 10.33% as compared with 2000, of which cold rolled sheets accounted for 1,115,000 tonnes, representing an increase of 5.19% as compared with 2000; wire rods accounted for 933,000 tonnes, the production of which is at the same level as the previous year; thick plates accounted for 1,025,000 tonnes, representing an increase of 28.61% as compared with 2000; the Large Section Plant accounted for 858,000 tonnes, representing an increase of 13.04% as compared with 2000. In addition, the Steel Smelting Plant of the Company produced 2,104,000 tonnes of steel in 2001.
2. The Company focused its efforts on the implementation of a central management system for its steel production. Consequently, the production operations improved, the product mix improved and the high efficiency of production was maintained. The Company implemented a central production management system at the production units of the Steel Smelting Plant, the Thick Plate Plant, the continuous rolling section of the Large Section Plant, placing focus on contract enforcement and implementing a daily planning management system. In addition, the Company also targeted the problems adversely affecting production and strengthened advance planning of production to achieve improvement in the contract enforcement ratio. The enforcement ratio for wire rod contracts and Large Section Plant contracts reached 100% whereas the ratio for cold rolled sheet contracts and thick plate contracts exceeded 98.5%
3. The Company also focused its efforts on boosting the production of high value added products, having boosted significantly the production of high-efficiency and profitable products such as heavy rails, military thick plates, wire rods as well as the SP and ST series of cold rolled sheets. The production of thick plates was boosted from 850,000 tonnes as planned to 1,025,000 tonnes; the production of wire rods was boosted from 880,000 tonnes to 933,000 tonnes; the production of heavy rails was boosted from 350,000 tonnes to 364,000 tonnes. The high-efficiency products sold in the year amounted to 1,040,000 tonnes, accounting for 26.82% of the total sales volume.
4. The Company strengthened its sales management, adopted a flexible sales strategy and achieved gradual improvement of its market share. The Company adjusted its sales strategy in a flexible manner, expanded its direct sales market and developed major projects. Targeting industries such as automobile, home electrical appliances, ship building and machinery, the Company incessantly expanded its direct sales market and received orders totalling 1,310,000 tonnes therefrom, representing 33.8% of the total sales volume. The Company focused its efforts on the development of major projects by targeting mainland construction projects such as railways, bridges and the "magnetically levitated" high speed train project in Shanghai. 11 tenders were secured in the year, and the Company received orders for 54,000 tonnes of steel products. In light of the pressure in the local market, the Company actively boosted its export volume and realized an export volume of 106,000 tonnes for steel products, of which thick plates accounted for 79,000 tonnes. In addition, the Company actively participated in international tenders for heavy rails and exported a total volume of 15,000 tonnes to Taiwan, Korea, Iran and Thailand, of which the heavy rails exported to Taiwan accounted for 13,000 tonnes. Significant progress was achieved in the exploration of new markets.

In 2001, the Company sold a total of 3,878,000 tonnes of steel products and the production to sales ratio was 98.65%.

Business Review (continued)

5. The Company utilized advanced technologies and accelerated the pace of its technological improvement. Significant progress was achieved in technological advancement and product development. The Company endeavoured to accelerate the pace of technological improvement so as to enable improved facilities to commence operation and to generate results as soon as possible. The billet continuous casting section of the Steel Smelting Plant was renovated and expanded to enable the Company to produce high-quality heavy rail materials. The Large Section Plant was also renovated to raise the quality of the heavy rails produced therein. The combined pickling and continuous rolling line at the Cold Rolling Plant commenced operation and generated results in July. The line did not only make it possible to produce high value added products, such as ST13 and ST14, but also significantly raised the success rate in production.
6. The Company strengthened technological advancement and established an integrated management system which is responsible for all of its production, sales and research. A science and technology enhancement committee was established. In addition, central management was implemented. The Company paid much attention to technological development and enhancement of the technological standard of the products. In respect of the development of new products, a project manager responsibility system was implemented. At the same time, a policy was formulated to reward staff for research that resulted in the development of new products. As a result, the development of new products was significantly enhanced. In the year under review, a total of 50 new products were developed and 60,000 tonnes of new products were produced.
7. The Company carried out a reform on the distribution system to shift the focus to positions and salaries. Based on the assessment of the nature of positions, a salary system related to positions/responsibility was officially implemented on 1 July 2001. In addition, the assessment mechanism under the new distribution system was improved, and the salary structure was simplified as a result. The new system was conducive to staff appraisal, assessment and motivation.

Structure of Corporate Governance

1. The Company conducted a review on its corporate governance structure based on the regulatory documents on the governance of listed companies issued by the China Securities Regulatory Commission. The Company's corporate governance was generally in conformity with the requirements stated in the documents. They were mainly demonstrated in the following areas:
 - (1) In connection with shareholders and general meetings: The Company was able to treat every shareholder fairly, to protect the interests of minority shareholders adequately and to ensure that every shareholder could exercise his rights fully. In addition, the Company was able to convene and hold general meetings in strict accordance with the requirements contained in the regulatory guidelines on general meetings.
 - (2) In connection with connected transactions: There existed connected transactions in respect of the supply of raw materials between the Company and its holding company. The Company conducted those connected transactions in strict accordance with market principles, firmly protected the interests of minority shareholders and complied with the stipulated approval and disclosure requirements.

Structure of Corporate Governance (continued)

- (3) In connection with the relation between controlling shareholders and the listed company: The relation between Angang Holding and the Company was generally in compliance with the requirements stated in the regulatory documents. Angang Holding is independent of the Company in terms of staff, assets, finance, organization and business.
- (4) In connection with Directors and Directors' meetings: The Company elected its Directors in strict accordance with the selection and appointment method contained in its articles of association. The number of persons and the formation of the Board were in compliance with the requirements of applicable laws and regulations. All the Directors of the Company attended Directors' meetings and general meetings in a serious and responsible manner. They actively participated in training to familiarize themselves with the applicable laws and regulations concerned and to understand the rights, obligations and responsibilities of a director.

Further review required: Although the Company has appointed independent Directors, it still lacks an independent Director with professional accounting qualifications. In addition, the Company has not yet set up any committees on strategy, nomination, salary and appraisal.

- (5) In connection with Supervisors and Supervisory Committee: The Supervisory Committee of the Company was able to discharge its duties properly, and it monitored financial matters of the Company and the legality and compliance of the Directors, Managers and other senior management in the discharge of their duties.
- (6) In connection with disclosure of information: The Company has appointed a Company Secretary. The Company Secretary is responsible for various information disclosure arms which, in turn, are responsible for disclosure of the Company's information. The Company was able to disclose its information in a true, accurate, complete and timely manner in strict accordance with the requirements of the applicable laws, regulations and the Company's articles of association, and to ensure that every shareholder had an equal opportunity to obtain the information.

Further review required: The Company has not set up an independent department for information disclosure. Information disclosure has been conducted by its management departments.

In accordance with the regulatory documents on corporate governance, there are still areas in need of improvement. In this respect, the Company is committed to conduct further review and to introduce improvements as soon as possible.

2. Discharge of Duties by Independent Directors

The Company has appointed independent Directors who were able to discharge their duties in accordance with the requirements of the applicable laws and regulations, express their views as independent directors on material issues of the Company, and protect the interests of the Company and of the minority investors.

Development Plan for the New Year

The Board is of the opinion that there are both favourable and unfavourable external factors for the development of the Company. As far as unfavourable factors are concerned, the global economy has slowed down and the worldwide demand for steel has contracted. Supply has outweighed demand in the international market, pushing down steel prices and intensifying market competition. As a result, the normal trade order was materially affected. In addition, following China's accession to the World Trade Organization, the import quota for iron and steel products will be scrapped and import tax will be significantly reduced. It is likely that the local iron and steel market will be adversely affected. The local market situation where supply has exceeded demand may further intensify.

In respect of favourable factors, the State will continue to boost internal demand and sustain economic growth. In particular, Beijing's successful bid to host the Olympic Games, the grand development strategy for Western China, the East-West Gas Pipeline and the improvement of railways will certainly boost the demand for steel. From the perspective of the Company, the overall quality and reputation of the Company has also improved remarkably by the intensification of reforms and improvement of capital use. The Company is endeavouring to expedite the implementation of a series of renovation in respect of its facilities. The effect of the renovation projects such as the continuous casting projects, the combined pickling and continuous rolling line and the cross cutting lines, which were financed by offering proceeds, are or have been gradually realized. Moreover, the renovation of the cold rolling line, galvanised steel production line, color coating production line, the Large Section Plant and the Thick Plate Plant will be completed and put into operation in the forthcoming years. These will significantly improve the Company's product mix and enhance the production capacities of the Company. In particular, through the full utilization of the Company's competitive edge in technological advancement and the manufacturing capacity of its domestic equipment together with the introduction of foreign key parts, the Company could significantly reduce its costs with an aim to minimize costs of investment and maximize returns. All these are favourable factors for the future development of the Company and the Company's competitiveness.

For 2002, the Company estimates the annual turnover to be around Rmb9,900,000,000, representing a year-on-year increase of 4%; the production to be 4,330,000 tonnes, representing a year-on-year increase of 10%; and, the costs to drop by 2.5%.

Proposed measures for the production and operations of the Company in 2002 are as follows:

1. Comprehensive central production and management system will be consolidated and expanded. The allocation of production resources will be improved. The stability and high efficiency of production will be ensured. More detailed objectives will be set and responsibilities will be clarified for every related step including contracting as well as planning and management, and close connection between production and sales will be ensured.
2. The research and production of new products will be stepped up. The investment in technological research will be enlarged and focus will be placed on technological advancement in order to continue to raise the market competitiveness of products. Focus will be placed on the adjustment of product mix to realize low costs and high added value after a certain scale has been guaranteed.

Development Plan for the New Year *(continued)*

3. The operations and sales management will be strengthened in order to continue to raise the market share of products. The sales volume to clients through direct sales will be actively promoted. The north eastern market will be further consolidated and the markets in northern and eastern China will be occupied. Effort will be put on boosting the sales of high-efficiency products in order to raise their percentage in the total turnover. Attention will be paid to the demands of overseas markets and the export volume will be raised. New markets will be explored at the same time.
4. Budget management will be thoroughly strengthened. A whole-process and all-round budget control system will be implemented. On the basis of the management of the 2001 budget, the functionality of budget management will be carried out comprehensively in an effort to attain the operations indicators.
5. The pace of technological improvement will be expedited. On the basis of economics and guaranteed quality, the development pace of the projects funded by the capital raised will be accelerated so as to enable them to generate returns as soon as possible. Subject to guaranteed quality, the development of projects not funded by the proceeds such as the production line of galvanised steel sheets and color coating steel sheets will also be accelerated. Meanwhile, the use of modern technology in an active manner is necessary so as to reform the Company and accelerate the establishment of its information system.

LIU JIE
Chairman

25 March 2002
Anshan City, the PRC

