

CHAIRMAN'S STATEMENT



I am pleased to present the annual report of Chongqing Iron & Steel Company Limited (the "Company") for the year ended 31st December 2002 for the review of shareholders.

Tang Min Wei Chairman

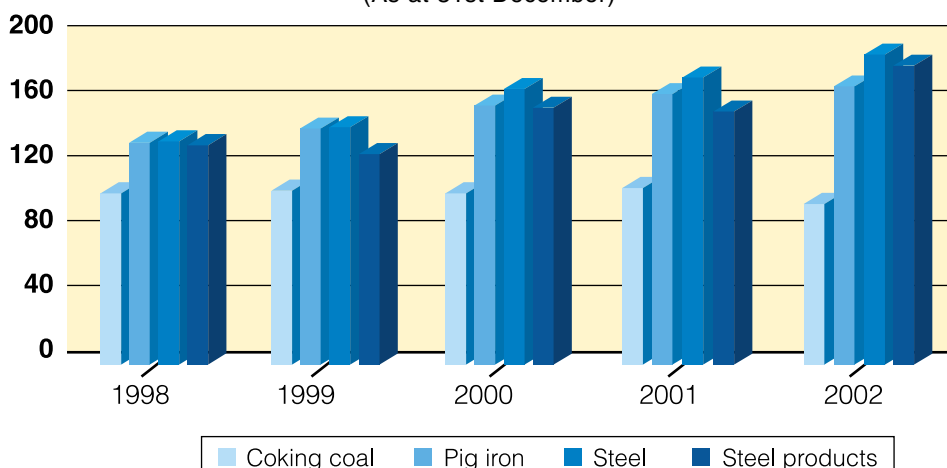
Operating results

To capture the opportunities emerged from the recovery of the domestic steel product market in 2002, the Group made great effort in marketing its products and maximized the production capacity by expanding its scale of production and sales network. All these helped to further strengthen its competitiveness and profitability. For the year ended 31st December 2002, the Group's turnover amounted to Rmb4,182,430,000 and profit amounted to Rmb286,062,000, representing an increase of Rmb422,401,000 and Rmb78,791,000 or growth of 11.23% and 38.01% from the previous year.

1. Expansion of production scale

In 2002, the Group had significant improvement in organising its production plans and put more effort to improve the quality of raw materials for iron-smelting. This helped to ensure smooth operation of blast furnace and to enhance the efficiency of coal blower. As a consequence, the utilization rate of No. 3 blast furnace exceeded 2.0t/m³.d and the iron-smelting volume made a breakthrough of 150,000 tonnes per month. The Group was able to increase the production volume and reduce wastage, thereby boosting the production scale of steel-smelting and the production volume of steel products. For the year 2002, the Company produced 965,000 tonnes of coking coal, 1,686,000 tonnes of pig iron, 1,860,000 tonnes of steel and 1,746,000 tonnes of steel products, except for coking coal which decreased by 9.7% whereas other increased by 5.67%, 8.15% and 14.51% respectively as compared to the previous year.

Production Volume of Principal Products (Unit: 0'000 tonnes)
(As at 31st December)



CHAIRMAN'S STATEMENT (CONTINUED)

Operating results (CONTINUED)

2. Increase in sales volume

In 2002, the Group put extra efforts in analyzing market information so as to make timely and accurate forecasts on prices of steel products. In view of the downward movements in steel price in the first half of the year, the Group made the best use of the timing to arrange for an overhaul to its blast furnace and maintenance to its equipment. With the improvement in market conditions during the second half of the year, the Group adjusted prices of its steel products, put efforts to boost sales, and at the same time adopted measures to strengthen the collection of accounts receivable and consolidate its customer base. In 2002, the Group sold 1,744,400 tonnes of steel products and the collection rate of accounts receivable was 103.27%. Sales volumes of steel products surged by 236,400 tonnes, representing an increase of 15.68% as compared with the previous year.

3. Enhancement of product quality

The quality of the Group's products is the key to maintain its competitiveness. In 2002, the Group passed the quality accreditation system of ISO9001: 2000. Five products of the Group, namely, 16MnR, 20g, 16MnDR, 20R and HP345 passed the accreditation in respect of product safety conducted by the Boiler Pressure Safety Examination Bureau under the State Ministry for Quality Inspection and Examination of the PRC. The Group's 錨鏈鋼 was accredited by 日本船級社 (NK). The Group obtained the licence for production of HRB335 and HRB400 graded spiral-grained steel.

4. Remarkable achievement in product development

The Steel Research Office, being the base of Group's product development, had remarkable achievement in developing new and specialised products. As a result, the production volume of new and specialized products amounted to 186,300 tonnes, representing a year-on-year increase of 40.3%, and of which the production volume of new products amounted to 50,100 tonnes, marking a year-on-year increase of 174%.

5. Technological renovation

With the aim of expanding production scale, increasing product specification and diversity, reducing energy and material consumption and refining ancillary production facilities, the Group completed six technological renovation projects in the year. Three of them were completed in the first half of the year and the remaining three, including the Group's power plant No. 2 electrical transformer renovation, middle plate plant 9-11 roller straight machine regional renovation project and the steel rod project of the steel section plant, were completed in the second half of the year. All these constituted a favourable atmosphere for the operation and development of the Group.

6. Reduction in human resources

In 2002, the Group rationalized its human resources allocation system and strengthened technical training for its staff in order to improve the staff mix and reduce the number of staff. As at 31st December 2002, the Company had 11,785 employees, reduced by 646 or 5.19% as compared to the previous year. Through reducing the number of staff, the Group implemented an effective competition mechanism, which in turn improved its production efficiency.

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Business Improvement Strategies

Development strategies for principal businesses: The newly constructed steel rods production line, which has commenced operation, for the manufacturing of refined steel sheets will become a new element of profit growth for the Company, thereby enhancing its strength and core competitiveness as a whole.

Financing strategies: The Company will seek additional funding by way of issuance of A shares to finance its continuing development.

Corporate governance: The Company will rationalize its corporate governance structure and standardize its operation by adopting the requirements of modern corporate management systems with an aim to improve the Company's overall operation and management efficiencies and endeavour to enhance its transparency, popularity and prestige.

Future Prospects

In 2003, the State will continue its focus on stimulating the domestic demand and implement aggressive fiscal policy and stable monetary policy, which will be favourable for maintaining a steady growth of the national economy. The large scale infrastructure project and huge investments in fixed assets undertaken by the State together with the rapid growth in production of such industries as automobile, machinery and home electrical appliances will boost the demand for iron and steel products. In 2003, the positive economic environment in the PRC is conducive to the sales of the Company's principal products. The Company will further expand its production scale, improve its production technologies, enhance the technological level of its equipment, making continuing and rapid development of the Company possible in the following year and thereafter.

The production and operation plan of the Company in 2003 is as follows: producing 950,000 tonnes of coking coal (2002: 965,000 tonnes), 1,850,000 tonnes of pig iron (2002: 1,686,000 tonnes), 2,000,000 tonnes of steel (2002: 1,860,000 tonnes), 1,850,000 tonnes of steel products (2002: 1,746,000 tonnes), selling 1,850,000 tonnes of steel products (2002: 1,744,400 tonnes) and achieving 100% collection rate of accounts receivable. Accordingly, the Company will focus on the following:

- As oriented by market conditions and customers' needs, the Company will reinforce collection and analysis on market information in order to keep abreast with the development of the steel market and to realign its sales and marketing strategies and production schedules in a timely manner to bring about a higher level of customers' satisfaction and boost sales.
- The Company will place emphasis on expanding its scale of production and reducing production costs in an endeavouring attempt to cope with the problem of raise in prices of raw materials. The Company will fully utilize the productivity of its existing facilities and through enhancing its iron-smelting capacity to lower the consumption of molten iron.
- The Company has positioned the year 2003 as the "Year of Technological Advancement". The Company intends to further optimize technological know-how and develop new and specialized products that satisfy the demands of the market.



CHAIRMAN'S STATEMENT (CONTINUED)

Future Prospects (CONTINUED)

- The Company will strictly implement measures on quality inspection and incessantly improve the quality of products by focusing on key production processes so as to accelerate quality improvement of its major products.
- The Company will strive to place emphasis on human resources and put more resources in staff training to improve their technical skills. Meanwhile, the internal incentive motivation system on evaluation and appraisal will be improved to take full advantages of the initiatives and creativity of the staff.
- The Company proposed to implement the following technological renovation projects for the purposes of upgrading the production know-how, enhancing product quality and increasing its market competitiveness:

Project	Objectives of the project	Commencement schedule
Overhaul to 620m ³ blast furnace	Improve the production capacity of iron-smelting	First quarter
Steel smelting plant's converter furnace upper and lower composite blowing equipment	Increase production efficiency and product diversity	Second quarter
Construction of the second LF furnace external refining treatment station	Enhance the quality of molten steel to help production of high quality steel	Third quarter
Cold rolling unit	Increase added value of high technology products	Second quarter
Medium plate plant steel cutter transformer modification	Enhance the function of steel cutter and enhance product quality	Fourth quarter
Steel rods finished goods warehouse	Solve the storage problem of steel rods	Fourth quarter of 2002
Steel section plant's straight machine upgrading	Modify the function of the straight machine to enhance product quality	Third quarter

Gratitude

I hereby would like to express my gratitude to our shareholders, directors and supervisors for their support and dedication as well as to the staff for their diligence, which contributed to the rapid business development of the Company.

Tang Min Wei
Chairman

Chongqing, the PRC
27th February 2003