

Chairman's Statement

I am pleased to submit the Annual Report of the Group for the year ended 31 December 2002 and extend my gratitude to all the shareholders on behalf of the board of directors of Angang New Steel Company Limited.



OPERATING RESULTS FOR 2002

In accordance with IFRS, the Group recorded a net profit of Rmb598,316,000 for the year ended 31 December 2002, representing an increase of 63.26% as compared with the previous year, and basic weighted average earnings per share was Rmb0.202.

In accordance with PRC Accounting Rules and Regulations, the Group recorded a net profit of Rmb594,588,000 for the year ended 31 December 2002, representing an increase of 47.27% as compared with the previous year, and basic weighted average earnings per share was Rmb0.20.

PROFIT APPROPRIATION

In accordance with PRC laws and regulations and the Articles of Association of the Company, the Group contributed Rmb59,459,000 from its net profit of Rmb594,588,000 for 2002 under PRC Accounting Rules and Regulations to the statutory surplus reserve and Rmb59,459,000 to the statutory public welfare fund. Together with the undistributed profit of Rmb806,203,000 at the beginning of the year, the profit attributable to shareholders amounted to Rmb1,281,873,000. The board has recommended a dividend of Rmb0.1 per share (inclusive of tax) for 2002. This appropriation proposal is subject to approval at the 2002 annual general meeting.

BUSINESS REVIEW

1. Production of major products: In 2002, the Company produced 4,303,700 tonnes of steel products, representing an increase of 9.48% as compared with 2001, of which cold rolled sheets accounted for 1,442,000 tonnes, representing an increase of 29.33% as compared with 2001; wire rods accounted for 922,400 tonnes, the production of which was essentially at the same level as last year; thick plates accounted for 1,005,500 tonnes, the production of which was also essentially at the same level as last year; and the large steel products accounted for 933,800 tonnes, representing an increase of 8.83% as compared with 2001. The Steel Smelting Plant of the Company produced 2,521,100 tonnes of steel in 2002, representing an increase of 19.8% as compared with 2001.

Chairman's Statement *(Continued)*

BUSINESS REVIEW *(continued)*

2. The Company implemented a centralized and unified management system for its production operations. Subsequently, production scale set a new high. The Company continued to consolidate and strengthen the centralized and unified management system. In the first half of the year, the Company carried out a centralized and unified management system mainly for the production programs of the Thick Plate Plant, Steel Smelting Plant and Large Section Plant. After June, the system was carried out for production in the Wire Rods Plant and Cold Rolled Sheets Plant. Thus, the management system was implemented throughout all of the Company's operations to ensure the expansion of its production scale.
3. Marketing management was improved and sales networks were optimized to protect the Company's capabilities against certain risks. The Company was proactive in seeking and expanding direct supplies, shortening the supply chain and establishing a strategic cooperation relationship with direct suppliers. As a result, orders placed by direct suppliers of the Company increased by 9% over the same period last year. In order to achieve a "win win" situation and mutual benefits, the Company stepped up the management of the relationship with clients, optimized the structure of agents and strived to establish a firm cooperative relationship with stronger agents. By following key projects and participating in more project tenders, the Company succeeded in securing and completing the development and supply of steel for China's first magnetically levitated trains in Shanghai. The Company also expanded and stabilized sales networks, enhancing the invitation and submission of tenders and strengthening follow-up services for key projects, such as the construction of bridges, drainage pipeline, and the West-East Pipeline Project. Export of sheets for vessels, wire rods and cold rolled sheets was increased to 187,300 tonnes for the year 2002.

In 2002, the Company sold a total of 4,197,800 tonnes of steel products.

4. The product structure was optimized and the Company's share in the sale of special and quality products increased in 2002. Sales volume of special and quality products reached 1,847,400 tonnes for the whole year, representing an increase of 75% as compared with last year.
5. The Company also increased its focus on research and development projects. 51 scientific research and new product development projects were completed in the whole year. Production capacity of sheets for vehicles reached 20,000 tonnes for the whole year. Special materials accounted for 30%, representing an increase of 16% as compared with last year.
6. Corporate management was strengthened and corporate quality raised on a continuous basis. Budget management level was further increased to improve cost control.

Chairman's Statement *(Continued)*

STRUCTURE OF CORPORATE GOVERNANCE

1. Status of the structure of corporate governance

The Company operates strictly in accordance with the requirements of the Company Law, Securities Law, relevant rules of the China Securities Regulatory Commission as well as the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Shares of the Shenzhen Stock Exchange. In addition, the Articles of Association of the Company were amended with reference to the Rules for Corporate Governance of Listed Companies to establish a sound corporate governance system.

Special committees have been set up by the Board, for which independent directors act as conveners of the Remuneration and Appraisal Committee, the Audit Committee and the Nomination Committee, and account for the majority of such committees' members.

2. Discharge of Duties by Independent Directors

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

3. The Company and controlling shareholders are totally independent of each other in terms of business, staffing, assets, organization, finance, etc. The independent establishment and operation thereof are in compliance with the requirements of relevant legislation. The Company is an independent and complete business and has the capacity to operate for its own account.

4. Appraisal and incentive mechanism for the senior management

The Company has position-salary and risk-salary systems for senior management. The position-salary system is linked to the Company's overall operating results while the risk-salary system is linked to the performance and operation benchmarks of individuals.

DEVELOPMENT PLAN FOR THE NEW YEAR

The Board is of the opinion that there are both favorable and unfavorable external factors affecting the development of the Company in 2003. As far as unfavorable factors are concerned, the prices of iron and steel products have been rising gradually since the second half of 2002, and prices may be under pressure to fall in 2003. The rising domestic demand for iron and steel products is expected to fuel the expansion of domestic production scale. In particular, growing investment by privately owned enterprises will intensify the competition in the domestic market for iron and steel products. At the same time, the rising prices of domestic iron and steel products will also encourage the import of overseas products into China, which in turn will increase product supply, thereby intensifying the competition among domestic iron and steel products.

Chairman's Statement *(Continued)*

DEVELOPMENT PLAN FOR THE NEW YEAR *(continued)*

As far as favorable factors are concerned, in 2003, China will continue to maintain its policy to expand domestic demand, implement a sound financial policy and a stable monetary policy and accelerate the strategic adjustment of economic structure. The national economy will continue to maintain a relatively high growth rate while investment in fixed assets will also continue to maintain growth. This will help to increase the demand for iron and steel products. From the Company's perspective, upon the completion and operation of projects now under construction, such as the renovation of Large Section Plant and the Thick Plate Plant, establishment of the galvanized steel and color coating production lines, cold rolled steel expansion and renovation projects and the jointly controlled entity's galvanized steel production line, the development of the Company will be further enhanced.

Proposed measures for the production and operations of the Company in 2003 are as follows:

1. Continue with improving the centralized and unified management system for production; optimize the implementation of contracts and plans for the purpose of shortening the production cycle; improve the production organizational model; in particular, ensure that new projects meet production targets and efficiency to maximize the advantages of new projects.
2. Further respond to the changes in sales networks and strengthen marketing management; continue to strive to develop direct suppliers by providing more quality services to them and establishing a strategic cooperation relationship with them. Strengthen the management of the relationship with clients, enhance the services provided to them and improve the services before, after and in the course of sales.
3. Accelerate the pace of technological reforms by focusing this year on the renovation reform of the Large Section Plant and the Thick Steel Plant, expansion and renovation of cold rolled steel and establishment of galvanized steel and color coating production lines so that they can come into operation as soon as possible.
4. Strive to carry out technological innovation; increase investment in science and technology and step up the research and manufacture of state-of-the-art products; take full advantage of the equipment installed upon completion of technological reforms; improve product positioning; adjust product structure, such as E-grade sheets for vessels, plates for bridges and vehicles, key rails with a speed of 300 km/hour, etc.; strive to create more new products and technologies carrying the Company's own intellectual property.
5. Optimize organizational structure and accelerate development of new system; focus mainly on reforming of staffing and distribution systems and planning for the optimization of the Company's organizational structure so as to raise the level of corporate management on a continuous basis and increase the competitiveness of the Company in the market.

LIU JIE
Chairman

31 March 2003
Anshan City, the PRC