

Chairman's Statement



Dear Shareholders:

I am pleased to present the operating results of the Group in 2002.

The Group realised sales of RMB10,974 million, representing a year-on-year increase of 14.94%. In accordance with PRC accounting standards, profit from principal operating

activities amounted to RMB1,663 million, a year-on-year growth of 29.76%. Net profit amounted to RMB384 million, 84.48% up from the previous year. In accordance with Hong Kong accounting standards, gross profit was RMB1,618 million, an increase of 22.77% over the previous year, and net profit was RMB308 million, an increase of 102.21% over the previous year. The growth in profit and net profit generated from principal operating activities was mainly a result of increased sales.

Amid recovery of the steel market in 2002 driven by steady growth of the country's economy, the Company completed its business plans with satisfactory results and improvements were seen in the Company's production operations.

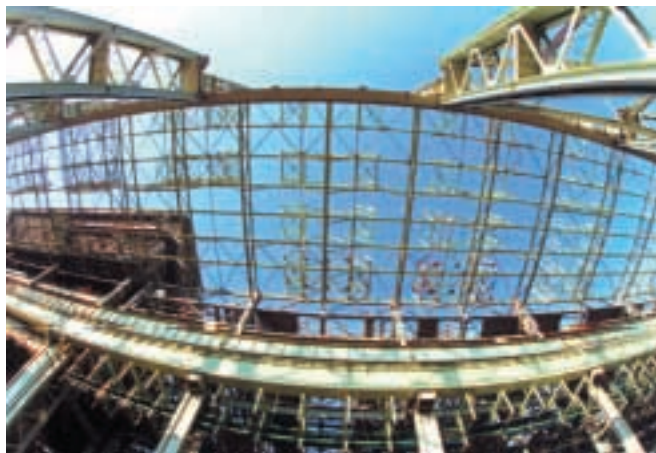
- Production efficiency was taken to a higher level and productivity was enhanced as a result of increased technology upgrades, optimised allocation of resources, improved process indemnification and better coordination. Production volumes of pig iron, steel and steel products amounted to 4,930,000, 5,380,000 and 5,140,000 tonnes, respectively, representing year-on-year increases of 6%, 13% and 16%, respectively.
- The Company continued to set new records in major technical and economic indicators through cost reduction strategies and programs in quality upgrades, brandname building, efficiency enhancements and specific cost savings. Product costs and expenses were reduced on an ongoing basis and the amount of inventories as a proportion of operating cashflow was further lowered. Gross coking ratio of steel production was 412 kilograms/tonne, 3 kilograms/tonne less than a year earlier. Pig iron and scrap steel consumption was 1,093 kilograms/tonne, 6 kilograms/tonne lower than the previous year. Consolidated continuous casting ratio was 96%, 7.8 percentage points higher than that in the previous year. Consolidated energy consumption rate was reduced to 806 kilograms of standard coal for each ton of steel produced, 84 kilograms less than the previous year. Consolidated production ratio was 1.6 percentage points higher than the previous year.

- A total of 5.11 million tonnes of steel products were sold, an increase of 670,000 tonnes or 15%. Despite substantial increase in production, a balance of production versus sales was maintained, generating sales revenue of RMB10,974 million, representing a year-on-year growth of 14.94%. The payment collection ratio reached 101.5%, while the cash revenue collection ratio was 1.5 percentage points higher at 96.3%. During the year, we were given a favourable verdict on anti-dumping charges filed by the United States against our H-shaped steel products as we learned to compete under the WTO rules, thereby reinforcing and expanding the international market for our H-shaped steel products. A total of 250,000 tonnes of steel products was exported, generating foreign currency income of US\$56.12 million which accounted for 4% of income from principal operating activities.
- Technology upgrade projects were carried out in accordance with the Company's Tenth Five-Year Plan (the "10-5 Plan"). Key technology upgrade projects such as the thin plate projects and its auxiliary facilities started construction as scheduled. The continuous ball-shaped billet casting machine at No.1 steel-making plant, the six-stream continuous casting machine at No. 3 steel-making plant and No 2 converter furnace at No. 1 steel-making plant were commissioned during 2002, preparing the Company for further expansion in its production capacity. Meanwhile, broad ranges of new products were manufactured in response to market demand. A total of 750,000 tonnes of new products were developed during the year, 48.8% more than that of the previous year.
- At the end of 2002, the Group's total assets were RMB17,139 million under the PRC accounting standards. Net cash and cash equivalents decrease was RMB271 million including RMB2,590 million net cash inflow from operating activities, RMB2,475 million net cash outflow from investing activities and RMB391 million net cash outflow from financing activities. There were no significant changes in total assets or shareholders' equity.



Chairman's Statement (continued)

- In 2002, the Group made use of its own resources and bank loans to invest a total of RMB2,113 million in projects under construction, an increase of 137% compared to 2001. Major investment projects were as follows: (1) The thin plate project, an investment of RMB5,200 million, had its No.2 converter furnace completed and commissioned on 18 November 2002; its hot-rolled



thin-plate plant having completed the installation of concrete structures and entering the equipment installation stage; and its cold-rolled plant having completed the installation of concrete structures and foundational facilities and currently commencing equipment installation; (2) The train wheel rolling system upgrade project, an investment of RMB320 million, has completed installation of part of the equipment; (3) The high-speed wire rod rolling upgrade project and the wire rod rolling machine at No. 2 steel-making plant, investments of RMB177.4 million and RMB132 million, respectively, are currently under installation; (4) The No. 3 converter furnace at No. 1 steel-making plant, an investment of RMB250 million, is currently carrying out foundational works and concrete structure formation; (5) the pre-iron system upgrade project, an investment of RMB1,093 million, is currently carrying out foundational construction and has commenced installation of part of the facility structure and certain equipment; (6) The technology upgrade project of the mechanical infeed facility, an investment of RMB109.5 million, is currently carrying out foundational works and has commenced the installation of part of the facility structure and certain equipment; (7) The coking plant, of which the No.2 coking furnace, an investment of RMB172 million, has completed its base platform; the dry-quenched coking facility, an investment of RMB168 million, has completed its foundational works; and the gas recovery facility of the coking furnace, an investment of RMB170 million, commenced construction on 26 December 2002; (8) The construction of the 40000 cu.m. oxygen generator, an investment of RMB340 million, started civil construction on 28 November 2002.

In 2003, the Group aims to produce 5.05 million tonnes of pig iron, 5.52 million tonnes of steel and 5.15 million tonnes of steel products; and to achieve 100% in the production to sales ratio for steel products and 95% in the cash collection ratio. The following strategies and actions will be implemented:

- To further enhance coordination of marketing, technology and production with a view to tapping into further potentials and enhancing profitability;
- To strengthen marketing and sales by reinforcing and improving the existing mechanisms to make them even more market competitive;
- To further realign our product mix and upgrade product quality;
- To procure a balanced development between production logistics and dynamic media and to optimise the operating system by increased application of information technology;
- To devote a full drive to technology upgrade projects, ensuring that all key projects are well prepared for commissioning; and
- To be innovative in staff deployment and allocation of resources and to carry out organisational restructuring.

Gu Jianguo
Chairman

2 April 2003, Maanshan, Anhui Province, the PRC