





CHAIRMAN'S STATEMENT



Tang Min Wei Chairman

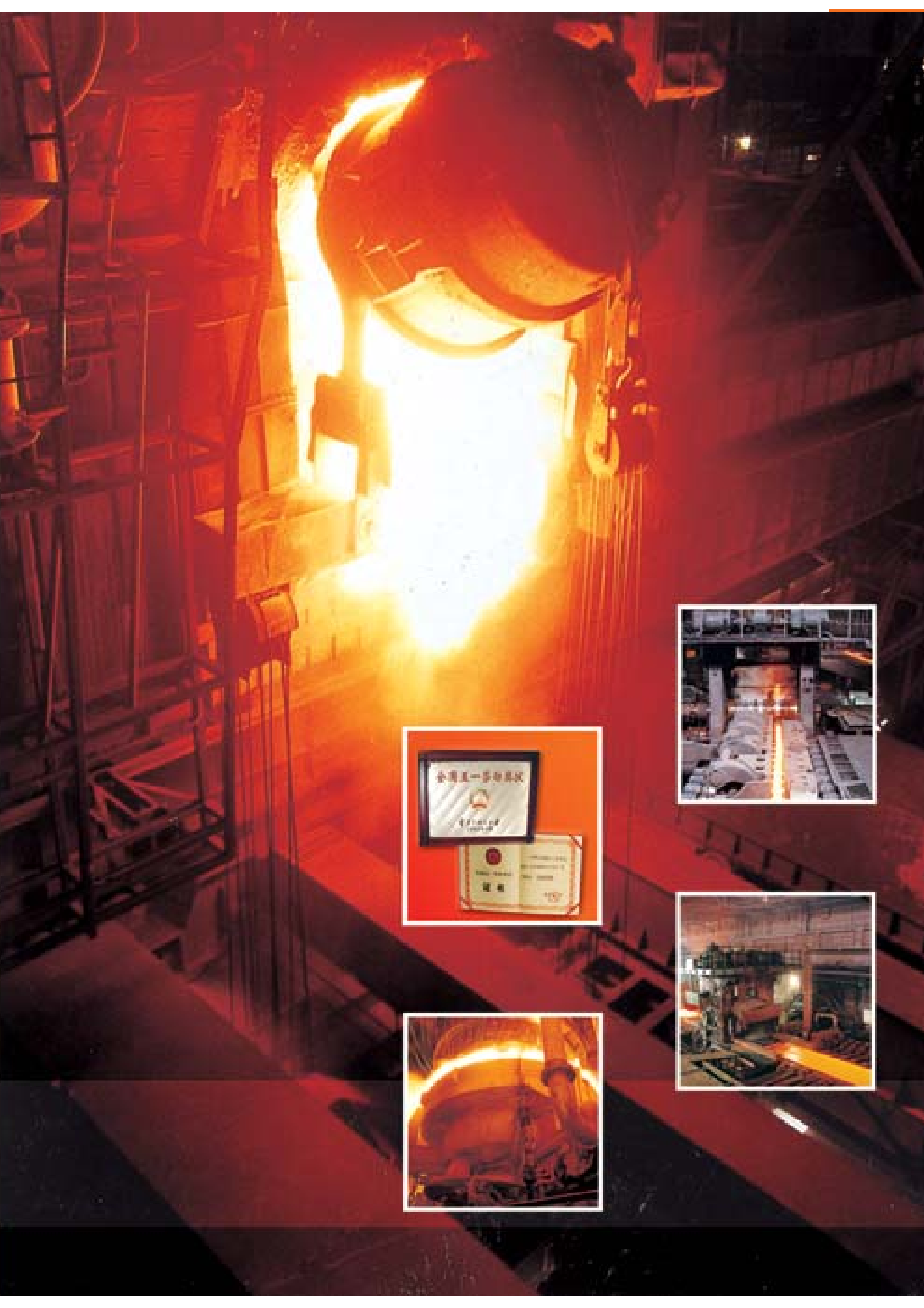
As the economy of the PRC grew rapidly in 2003, the supply and demand of domestic **steel market** and prices of steel products also increased.

To Shareholders:

I am pleased to present the annual report of Chongqing Iron & Steel Company Limited (the "Company") for the year ended 31st December 2003 for the review of shareholders.

Operating results

In 2003, there was a significant growth in domestic consumption, investment, import and export after the Severe Acute Respiratory Syndrome ("SARS") epidemic. As the economy of the PRC grew rapidly in 2003, the supply and demand of domestic steel market and prices of steel products also increased. The Company's operating results achieved a substantial growth because the Company overcame negative factors such as shortage of resources and navigation suspension in the Three Gorges. The Company made full use of favourable market conditions to actively adjust its product structure, increase its production capacity, improved the quality of products and properly adjusted its selling strategies. For the year ended 31st December 2003, the Company's turnover amounted to RMB5,609,309,000 and profit attributable to shareholders amounted to RMB977,039,000, representing an increase of RMB1,426,879,000 and RMB690,977,000 or growth of 34.12% and 241.55%, respectively from last year. In 2003, the Company produced 1,048,100 tonnes of coking coal, 1,836,200 tonnes of pig iron, 2,050,200 tonnes of steel and 1,862,600 tonnes of steel products (billets), representing an increase of 8.61%, 8.91%, 10.23% and 6.68%, respectively from last year.





CHAIRMAN'S STATEMENT *(continued)*

1. Supply chain management

Due to the increased production capacity of iron and steel, the supply of raw materials of iron and steel experienced shortage and continual increase in prices in 2003. Under such unfavourable conditions, the Company carried out effective strategies on procurement of raw materials from suppliers to secure a safe level of inventories. In addition, the Company took an active role to communicate with the suppliers, so as to keep abreast of the market trend of raw materials and to adjust its inventory level timely. Therefore, the Company could fully utilise its production capacities.

2. Sales strategy

To capture favourable opportunities in domestic steel market in 2003, the Company performed more detailed analysis of the steel market. To monitor the market changes, the Company also strengthened its communications with major customers and adjusted selling prices of steel products on a timely basis. Furthermore, while maintaining stable cooperation with strategic long-distance customers, the Company put more effort in the south-western market and areas along the Yangtze River. By promoting the sales of products with higher profit margins, the Company achieved a significant growth in sales volume of high profitable products such as low-alloy plates, vessel plates, vehicle Ren-shape plates, bridge frame plates and bulb flat steel. This increased the Company's profitability. In 2003, the Company sold 1,864,800 tonnes of steel product (billets). Sales volume of steel products increased by 120,400 tonnes, representing an increase of 6.9% from last year.

3. Improvement of product quality

In 2003, the Company tightened its quality inspection and control to minimise adverse effects generated by defective raw materials as a result of its diversified supply sources. In addition, the Company is capable to ensure efficient operation of its quality control system by reinforcing quality control and management process and strengthening staff training. Thus, the Company achieved an increase in production while maintained the high quality of its product. In 2003, the passing rates of steel smelting of billets and rolled steel products recorded 99.76% and 99.66%, respectively, representing an increase of 0.08% and 0.31% from last year.



CHAIRMAN'S STATEMENT *(continued)*

4. Development of new products

The Company believes that the development of new products is an effective means to explore new markets and achieve sustainable growth. In 2003, the Company took initiatives in carrying out pilot production of new and specialised products continuously to meet the increasing market demand. During the year, the Company developed 5 new products. Pilot production volume and value of new and specialized products amounted to 275,000 tonnes and RMB750,000,000, respectively, representing an increase of 47.6% and 66.7% from last year.

5. Technological renovations

In 2003, the Company completed two technological renovation projects, namely construction and renovation of warehouse for finished steel rods and overhaul to 620m³ blast furnace. The construction and operation of the first project solved the problem of storage of rod products, whereas the latter enhanced the capacity of iron smelting, resulting in an equilibrium of iron smelting and steel smelting capacity. In order to adjust the product mix, improve the quality of product and upgrade its technology, the Company further undertook various technological renovations projects, including the expansion of the continuous casting machine No.5 for steel plate slab and the expansion of the external refining station of LF Furnace No.2.



CHAIRMAN'S STATEMENT *(continued)*

Prospects

In 2004, the PRC government implements active and effective macroeconomic controls aiming to maintain a healthy and sustainable growth of the PRC economy. Construction of infrastructure projects will be continued so as to improve the domestic market and investment environment. Industries like construction, machinery, automobile, home appliances, shipbuilding, petrochemical, container and railway, being the major domestic consumers of steel products, will maintain a steady growth, which will lead to an increased demand for steel products. The Company will continue to adjust its product mix and refine its product quality to increase its market competitiveness and achieve a steady growth in operating results. Accordingly, the Company will focus on the following:

- The Company will continue to perform more detailed analysis on the domestic steel market in order to keep abreast of market information and to adjust its selling strategies. The Company will improve its quality of services, establish a stable customer base and strengthen cooperation with its customers.
- The Company will look for more reliable and long-term suppliers of raw materials in order to secure steady and effective production.
- The Company will further expand its production scale and ensure its efficiency.
- The Company will put more efforts on technological renovation and adopt an effective incentive mechanism in order to improve its product quality and reduce energy consumption and costs of production.



CHAIRMAN'S STATEMENT *(continued)*

- In 2004, the Company proposed to implement the following technological renovations for the purposes of upgrading the existing production know-how and improving its production and operating results:

Project	Objectives of the project
Medium plate plant's sophisticate steel cutter transformer modification	Reduce energy consumption
Medium plate plant's steel cutter width and capacity modification	Diversify product specifications and increase production capacity
Expansion of the electrical blower No. 3	Improve smelting intensity of the blast furnace and its utilisation coefficient
Renovation of railways in the smelting zone	Improve the conditions for transportation
Renovation and expansion of the sintering plant's workshop No. 1	Raise the production volume of sinter ores to meet the requirements for iron smelting

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
11th March 2004