

# Chairman's Statement



**I am pleased to submit the Annual Report of the Group for the year ended 31 December 2003 and extend my gratitude to all the shareholders on behalf of the board of directors of Angang New Steel Company Limited.**

## **OPERATING RESULTS FOR 2003**

In accordance with IFRS, the Group recorded a net profit of Rmb1,433,002,000 for the year ended 31 December 2003, representing an increase of 139.51% as compared with the previous year, and basic weighted average earnings per share was Rmb0.484.

In accordance with PRC Accounting Rules and Regulations, the Group recorded a net profit of Rmb1,432,579,000 for the year ended 31 December 2003, representing an increase of 140.94% as compared with the previous year, and basic weighted average earnings per share was Rmb0.484.

## **PROFIT APPROPRIATION**

In accordance with PRC laws and regulations and the Articles of Association of the Company, the Group contributed Rmb143,258,000 from its net profit of Rmb1,432,579,000 for 2003 under PRC Accounting Rules and Regulations to the statutory surplus reserve and Rmb143,258,000 to the statutory public welfare fund. Together with the undistributed profit of Rmb1,281,803,000 at the beginning of the year, the profit attributable to shareholders amounted to Rmb2,427,866,000. The board has recommended a dividend of Rmb0.2 per share (inclusive of tax) for 2003. This dividend proposal is subject to shareholders' approval at the 2003 annual general meeting.

# Chairman's Statement *(Continued)*

## BUSINESS REVIEW

1. Production of major products: In 2003, the Company produced 4,401,700 tonnes of steel products, representing an increase of 2.28% as compared with the previous year, of which cold rolled sheets accounted for 1,728,900 tonnes, representing an increase of 19.90% as compared with the previous year; wire rods accounted for 723,800 tonnes, representing a decrease of 21.53% as compared with the previous year; thick plates accounted for 850,000 tonnes, representing a decrease of 15.46% as compared with the previous year; and the large steel products accounted for 1,099,000 tonnes, representing an increase of 17.69% as compared with the previous year. The Steel Smelting Plant of the Company produced 2,855,800 tonnes of steel in 2003, representing an increase of 13.28% as compared with the previous year.
2. Leveraged the Company's existing centralized and unified management system to overcome the problem of shortage in resources. The Company also strived to maximize results and fully utilize the production capacity of high margin products.
3. The Company actively seized on opportunities to grow its market share. Analyzing the market in a dynamic approach, the Company adopted a flexible pricing strategy which resulted in significant increases in product prices as compared with the beginning of the year.
4. The Company strived to develop relationships with new users and dedicated its efforts to enhance the sales of customised high quality products. The Company secured 15 new direct users in the year and realized its target of orders by direct users to represent 54.7% of total sales volume. The Company also focused on major construction projects such as domestic railways, bridges and the west-east pipeline project, and other major State projects and was able to secure 9 tender contracts in the year. The Company actively developed the international market for cold rolled products, thick plates, wire rods and heavy rails. The Company exported approximately 622,600 tonnes of steel and processed steel products for export.

In 2003, the Company sold 4,369,100 tonnes of steel products.

5. Strengthened technological renovation to build a advanced production base.

In 2003, the Company completed a number of technological renovation projects. The Company completed the redevelopment and expansion of the cold rolled production lines. Nos. 1 and 3 galvanization production lines, color coating steel sheet production lines and the galvanization production lines in Dalian, a major investment project with Thyssen Krupp Stahl AG ("Thyssen"), were all completed with successful trial production. The thick plate plant renovation project was successfully completed which enabled the enhancement of the production capacity and quality of thick plates. Through a series of technological renovation projects, the Company now has a range of high-end products such as cold rolled thin sheets, wide thick plates, heavy rails and large steel products.

6. Strengthened research and development and enhanced products' competitiveness. The Company developed and tested a total of new 47 products in the year, of which 05 grade cold rolled sheets was successfully developed and was applied on vehicles surface plates, enabling the Company to become the second steel products enterprise to produce high-end cold rolled plates for vehicles.

# Chairman's Statement *(Continued)*

## CORPORATE GOVERNANCE

### 1. 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 with independent directors acting as chairmen of the Remuneration and Appraisal Committee, the Audit Committee and the Nomination Committee, and accounting 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 have discharged their duties in accordance with the requirements of the relevant laws and regulations, and had expressed their independent opinion on material matters of the Company in order to safeguard the interests of the Company as well as the minority shareholders.

### 3. The Company's Capacity to Operate for its Own Account

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 set up position-based and risk-based salary schemes for senior management. The position-based salary scheme is linked to the Company's overall operating results while the risk-based salary system is linked to the performance and responsibilities assumed by individuals.

## DEVELOPMENT PLAN FOR THE NEW YEAR

The Board is of the opinion that there are both favorable and unfavorable external factors which could affect the development of the Company in 2004. As far as the unfavorable factors are concerned, due to the rapidly growing demand and production output of steel products in the domestic market, competition among iron and steel enterprises will expand into upstream product markets, which will drive up the upstream raw material prices. In addition, the outlook on market competition in both domestic and overseas market is not positive. With major steel production countries accelerating the setting up of multi-national companies, capital investment on products and export of core technology will increase. At the same time, increase in production capacity in the domestic steel market is expected to result in oversupply.

# Chairman's Statement *(Continued)*

## **DEVELOPMENT PLAN FOR THE NEW YEAR** *(continued)*

On the positive aspects, it is expected that China's national economy will continue its strong growth in 2004, which will drive the demand for iron and steel products. In the meantime, the state policy on reviving north-east traditional industrial bases should also provide market opportunities for the Company. As far as internal factors are concerned, with the completion of construction and commencement of operation for renovation projects, such as the Large Section Plant, improvement and expansion of the production facilities at the Cold Rolling Plant, galvanized rods, colour coating rods and thick plate plants, the Company should be better positioned to face domestic and overseas market competition. The Company will quickly adapt to its new equipment and technology in order to translate its equipment advantage into product and earnings advantage as a way to further develop the Company's operations.

Proposed measures for the production and operations of the Company in 2004 are as follows:

1. Consolidate the centralized and unified management system for production; optimize production system to ensure production scale.
2. Strengthen the capability of technological innovation; improve product positioning and enhance the core competitiveness of the Company on a continuous basis.
3. Strive to enhance sales management, strengthen the technical support to direct users, stabilize sales channels and build long term positive partnership with users.
4. Optimize the structure of labor force in order to continue staffing reforms.
5. Take advantage of its exchange listing status; strengthen capital utilization; accelerate the diversified development of the Company's operations.

**LIU JIE**  
*Chairman*

16 April 2004  
Anshan City, the PRC