

Chairman's Statement



Dear Shareholders,

I am pleased to present the operating results of the Group for 2003.

During 2003, the Group realised a sales income of RMB15,740 million, representing a year-on-year increase of 43.43%. In accordance with PRC Accounting Standards, profit from principal operating activities amounted to RMB3,916 million, a year-on-year growth of 135.43%. Net profit amounted to RMB2,793 million, up 626.5% from the previous

year. Earnings per share stood at RMB0.433, representing a year-on-year increase of 621.67%. In accordance with Hong Kong Accounting Standards, profit from principal operating activities amounted to RMB4,018 million, a year-on-year growth of 148.29%. Net profit amounted to RMB2,659 million, up 682.74% from the previous year. Earnings per share stood at RMB0.412, representing a year-on-year increase of 677.36%.

During the first half of 2003, major economies worldwide resumed growth and the global economy experienced recovery at a faster pace in the second half of the year. New development opportunities were also seen in the steel market worldwide. During 2003, the PRC economy continued to perform impressively in the global market and enjoyed steady and rapid growth in the national economy, with its GDP increasing by 9.1% over the previous year and achieving a record high in per capita GDP of over US\$1,000. The rapid growth of the national economy have created a favourable environment for the development of the steel industry in mainland China. Driven by strong demand from the domestic market, China's steel production in 2003 reached 220 million tonnes, representing a year-on-year increase of approximately 22%. Such Production volume of the PRC has enable it to capture a 23% share of the world's steel production.

The Group has capitalised on the excellent demand situation of the steel market in 2003, accelerated its structural adjustment and the construction and commissioning of new projects, optimised production process and logistic balance, enhanced production efficiency, further increased output and gave full play to economies of scale. While improving its scale of production, the Group took a solid step to promote sales and marketing based on modern sales and marketing philosophy, thereby achieving significant increase in both product sales volume and income and realising synchronised growth in both operating scale and efficiencies. In 2003, the Group set new records in production volumes of pig iron, steel and steel products amounting to 5,450,000 tonnes, 6,060,000 tonnes and 5,560,000 tonnes respectively, representing year-on-year increases of 10.55%, 12.64% and 8.17% respectively. The production to sales ratio and payment collection ratio of steel products both stood at 100%.



Strong demand in the steel market and significant increase in iron and steel productions brought about certain new problems to the PRC steel industry during the second half of 2003 which were mainly related to the short supply and tight delivery of raw materials and fuels such as iron ore and coal. To cope with the situation, during 2003, the Company entered into long-term contracts with major international and domestic iron ore and coal suppliers; invested in resource-related enterprises; strengthened cooperation with railroads, shipping corporations and terminals to consolidate the logistic process. By adopting various proactive and effective measures, the problems caused by short supply and tight delivery of raw materials and fuels were relieved.

Meanwhile, the Company also achieved considerable progress in project construction through careful coordination. Major investment projects such as the Revamping of High Speed Wire and Rolling Mill Project, the Wire Rod Mill of No.2 Steel Making Plant, the Reformation of Dock and Stock Storage Ground, the 300m² Sintering Machine, the 2500m³ Blast Furnace, the No. 3 Converter of No. 1 Steel Making Plant, the Hot-rolled Thin Plate Plant, the new No. 1 Coke Furnace, etc. have completed and commissioning started one after another. The projects of the Cold-rolled Thin Plate Plant and the Coke Dry Quenching Project would be put into trial production in the first quarter of this year. A number of projects such as the 1000m³ Blast Furnace and the Coil Coating Lines Project are undergoing construction.

In short, the Company recorded the best ever operating results in 2003 and achieved better-than-expected progress ahead of the annual operation plan formulated by the Board of Directors.

Looking forward, the global economic recovery is expected to continue in 2004. The PRC will further strengthen and improve macro-regulatory measures, maintain the continuity and stability of its macro-economic policy, and make proper arrangements for a stable process of reform and development, with a view to facilitating faster development of a balanced economy and achieving an annual economic growth target of 7%.

It is expected that demand in the PRC steel market will remain strong and output of domestic steel and iron enterprises will enjoy considerable growth. However, due to the situations that short supply of resources such as iron ore and coal and their tight delivery will not be relieved, production costs of steel and iron will increase rather significantly. Against this backdrop, in 2004, the iron and steel enterprises will face both opportunities and difficulties and will operate under difficult circumstances.

Chairman's Statement (continued)

In 2004, the Group aims to produce 7,330,000 tonnes of pig iron, 7,780,000 tonnes of crude steel and 7,000,000 tonnes of steel products; and to achieve 100% in the production to sales ratio and payment ratio for steel products and over 95% in the cash collection ratio.

To accomplish the above targets, major measures will be taken as follows:

- To continuously strive for a higher production standard and to further pursue system optimisation with special focus on reaching the designed capacity and smooth operation of the thin-plate production line, with an aim to achieving a higher level of our production operation.
- To enhance our ability in technology innovation: to further focus on the development of new products, and to achieve transformation from having the process equipment advantage to the product advantage as soon as possible by devoting further efforts to the R&D of products with high added value and high technology content.
- To achieve greater energy savings by further improvement of the various technical and economic indicators; to implement initiatives on energy savings by introducing energy saving and water saving measures such as gas recovery, billet red delivery, water recycling and reuse, etc; to reduce the consolidated energy consumption rate of pig iron and scrap steel and consumption of steel and iron raw materials, and to improve the rate of finished products.
- To develop an instant response mechanism to market information trends by strengthening market analysis and forecasts, and to enhance the market shares of our products by delivering high quality products and services.
- To further implement optimisation of inventory structure while accelerating incremental structural adjustment; in line with the implementation of the structural adjustment scheme under the State's Tenth Five-Year Plan (the "10-5 Plan") in relation to the core steel and iron industry, to strengthen the dynamic management of network planning, to ensure timely completion and commissioning of major projects for 2004; and to accelerate the implementation of projects such as the second H-shaped steel production line, the second zinc coating line and the post 10-5 Plan technology upgrade projects, etc.

- To establish reliable overseas supply base of resources such as ore, coal and coke, through different forms of collaborations such as long-term cooperation agreements, investments and partnerships, etc; to keep improving coordination as well as loading and unloading capability in relation to resources transportation through stronger cooperation and ties with the transportation companies; and to further optimise the management of the logistics system to ensure timely and highly effective supply of resources.

Gu Jianguo

Chairman

13 April 2004

Maanshan City, Anhui Province, the PRC