



CHAIRMAN'S STATEMENT

Chongqing Iron & Steel Company Limited



To Shareholders:

I am pleased to present the annual report of Chongqing Iron & Steel Company Limited for the year ended 31st December 2004 for consideration.



Operating Results

In 2004, the global economy was improving and there was considerable growth in domestic economy. Driven by the continuing demands, the domestic steel market witnessed fluctuations at a high price level. Leveraging on such favourable market opportunities, the Company overcame various difficulties in undersupplied raw materials, transportation and power supply to secure smooth running of procurement, production, sale, product development and technological renovation, a desirable manner in production and operation has been achieved. Due to the rapidly increasing prices of raw materials such as iron ore, coal and iron alloy, the Company recorded a decrease in profit from last year. For the year ended 31st December 2004, the Company's turnover amounted to Rmb8,552 million, an increase of Rmb2,943 million or 52.46%, whereas profit before tax amounted to Rmb872 million, a decrease of Rmb96 million or 9.88% from last year.

I. Production expansion by exploring potential

In 2004, the Company followed its strategy of "fully exploring potential to maximize efficiency and production" to organize its production. By optimizing equipment maintenance and management, the utilization rate of blast furnace was enhanced to take full use of steel smelting capacity. Also the Company improved coordination of work processes in production and overcame adverse factors in raw materials and transportation, resulting in further growth in its production scale. For the year ended 31st December 2004, the Company produced 1,125,700 tonnes of coking coal, 2,274,300 tonnes of pig iron, 2,500,300 tonnes of steel and 2,250,400 tonnes of steel products (billets), representing an increase of 7.40%, 23.86%, 21.95% and 20.82% respectively from last year.

II. Improving procurement of raw materials

Owing to the rapid growth of the domestic steel industry and the increasing steel production capacity, the shortage of raw materials supply such as iron ore, coal and iron alloy led to an intensified scrambling for resources and the skyrocketing material prices. Under such unfavourable conditions, the Company adjusted its strategies on procurement of raw materials. With new supply sources, stable supply channels and higher level of raw materials, the Company's production demand for materials was effectively met.



CHAIRMAN'S STATEMENT *(CONTINUED)*

Chongqing Iron & Steel Company Limited

Operating Results *(continued)*

III. Expansion in market sales

Upon objective observation of the market in 2004, the Company adjusted its selling strategy and planning and more focused on the enhancement of sales in Chongqing's local and peripheral markets as well as markets along Changjiang River to secure and develop strategic customers. By aligning product structure, elaborating product advantages and improving service quality, the Company achieved a growth in product sales. For the year ended 31st December 2004, the Company sold 2,293,400 tonnes of steel products (billets), representing an increase of 22.98% from last year, with a collection rate of accounts receivable amounting to 100.62%.

IV. Development of new products

With a market-oriented approach, the Company wielded technological innovation to develop new products continuously. The Company made an effort in the enrichment of product varieties and the completeness of product lines. In 2004, the Company developed 5 new products. Production of new and specialized products amounted to 406,000 tonnes or Rmb1,417,000,000, representing an increase of 131,000 tonnes or 47.64% from last year.





Operating Results *(continued)*

V. Strict control on product quality

In response to the adverse impacts of quality fluctuation of raw materials, to begin with, the Company strengthened quality control on materials purchased from third parties based on the quality investigation on raw materials from the supply sources and established an alarming and forecast mechanism against material quality defection as well as a timely reporting system of quality fluctuation. Also, the Company achieved perfection for the standard of internal quality control and strengthened the quality control in the procurement of raw materials and took efforts in monitoring quality of production processes and key products. In 2004, the Company maintained a sound reputation in its product quality. Its bulb flat steel, chain steel and vehicle Ren-shape plate were honoured as Chongqing's famous branded products.

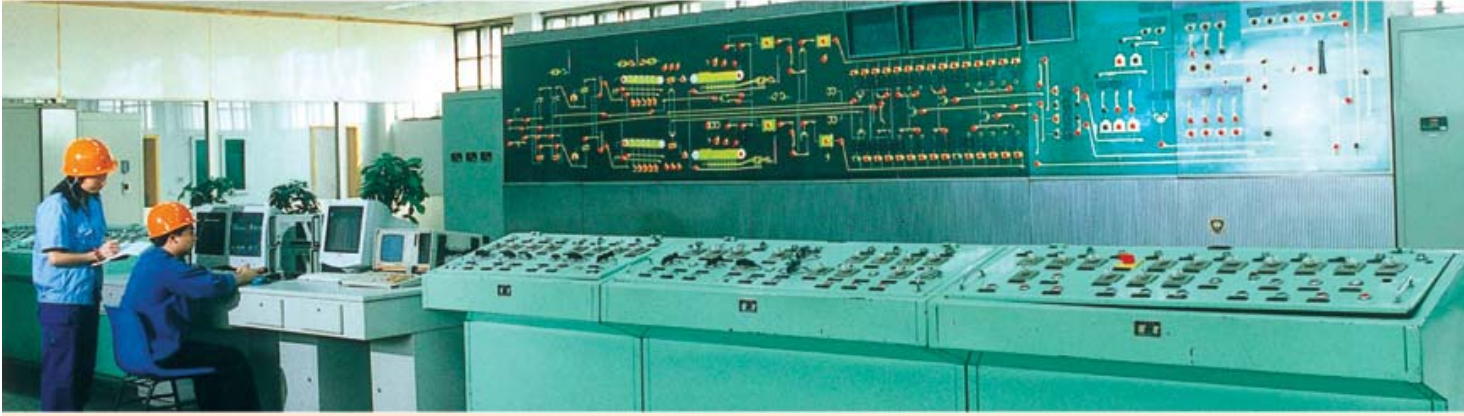
VI. Ongoing technological renovations

Technological renovation is a crucial means for the Company to improve its product mix, technical know-how as well as technical and economic targets, make a reasonable use of resources and sharpen its market competitive edge. In 2004, the Company completed 4 technological renovation projects. The cool roller project phase I has completed and put into operation, which contributed to the enhancement of productivity for rolling steel of the Company and increased the technological content and value-addition of products. The expansion of continuous casting machine No.5 for steel plate slab and the expansion of external refining station of LF Furnace No.2 were also completed, resulting in an improvement in serial structure and quality of steel billets. With the completion of the medium plate plant's sophisticate steel cutter transformer modification project, both reduction in energy consumption and enhancement of quality for steel plates were achieved.



CHAIRMAN'S STATEMENT (CONTINUED)

Chongqing Iron & Steel Company Limited



Prospects

In 2005, with the implementation of the PRC government's prudent financial and monetary policies for in-depth macroeconomic control and advancing in industrialization and urbanization, the PRC economy is expected to maintain a steady growth and hence the strong demand for steel products. The increase in domestic demand and the international market for steel products will lead to high prices of domestic steel products, while on-streaming of new steel production capacity in the PRC will also bring differentiated market performances for different steel products. The undersupply of transportation and power supply will keep imposing limits on development of the steel and iron industry, which will still suffer the pressure from the increasing prices of raw materials including iron ore. Therefore, taking advantage of the favorable market opportunities, the Company will continue to expand production scale, improve product quality and structure, upgrade technological know-how and cut down product cost with an aim at desirable operating results. Accordingly, the Company will focus on the following:

- ◆ To expand its production scale and ensure its efficiency.
- ◆ To utilize specialized market and adjust layout of products to facilitate product sales.
- ◆ To strengthen development and restructuring of new varieties so as to elaborate product advantages.
- ◆ To reinforce control on product quality and establish excellent reputation for product quality.



Prospects *(continued)*

- ◆ To implement key technological renovations for the purposes of upgrading the technological know-how.
- ◆ To deploy activities of “retrenchment year” to lower the cost of operations effectively and improve efficiency of resource utilization.

In 2005, the Company intends to undertake the following technological renovation projects financed by internal resources and bank loans:

Project	Objectives of the project
Overhaul and renovation of coke furnace No.1	Increase yield and improve quality of coke
Expansion of slab continuous casting machine and extension to the prime plant building	Improve product quality and product mix
Medium plate plant's heat treatment renovation and the additional finishing line No.2	Improve treatment of heat capacity and product quality
Renovation of overhaul to blast furnace No.4	Increase the production capacity of iron smelting and balance the productivity of production procedures

Gratitude

I hereby would like to express my gratitude to the sincere expectation and trust of all shareholders, the full support of Directors and Supervisors as well as the dedication of the management and the diligence of staff which contributed to the rapid business development of the Company.

Tang Min Wei
Chairman

Chongqing, the PRC
10th March 2005