Chairman's Statement

Dear Shareholders,

I am pleased to present the operating results of the Group for 2004.

During 2004, the Group realised a sales income of RMB26,770 million, representing a year-on-year increase of 70.07%. In accordance with PRC Accounting Standards, net profit amounted to RMB3,576 million, up 28.03% from the previous year. Earnings per share stood at RMB0.554, representing a year-on-year increase of 28.03%. In accordance with Hong Kong Accounting Standards, net profit amounted to RMB3,592 million, up 35.10% from the previous year. Earnings per share stood at RMB0.556, representing a year-on-year increase of 35.10%.

During the past year, the global economy experienced growth at a faster pace and demand from the international steel market was strong, resulting in a steady growth in the price of steel products. As China has further strengthened and improved its macro-economic control measures, the national economy has maintained a good momentum of development. The development of the national economy has created development opportunities for the domestic iron and steel industry, while at the same time led to the short supply of raw materials and fuels and created pressure on power supply and transportation.

Facing such situation, the Group has optimised the allocation of resources and achieved a higher production level with special focus on ensuring supply of resources, stabilising production of blast furnace and strengthening the tackling of technical difficulties of new projects. The average utilisation coefficients of all 3 blast furnaces have been at the leading edge among similar blast furnaces in the PRC and the production level of steelmaking is setting new records all the time. The CSP production line has fulfilled its monthly production capacity, and the production lines of rod products, medium thick boards, H-shaped steel, medium and small shaped products have all exceeded their designed capacity by a great extent. In 2004, the Group produced a total of 7,070,000 tonnes of pig iron, 8,030,000 tonnes of crude steel and 7,430,000 tonnes of steel products, representing year-on-year increases of 29.72%, 32.51% and 33.63% respectively. The production volumes of pig iron, crude steel and steel products had all set new records. With such significant increase in productivity, the Group capitalised on the regional advantage of the Company, optimised marketing channels, enhanced logistics integration and established a new end-user oriented sales model, thereby securing coordination between production and sales. As a result, a 100% production to sales ratio and a 100% payment collection ratio for steel products were achieved.

During the reporting period, the Company continued with the implementation of the Tenth Five-Year Plan ("10-5 Plan") – Magang's structural adjustment scheme in relation to the 10-5 Plan focusing on the Company's principal business. Major projects such as the Cold-rolled Thin Plate Plant, No. 1 Galvanising Line, 1000m^3 Blast Furnace, No. 4 Converter of No. 3 Steel Making Plant, Coke Dry Quenching Project, High-Speed Rod Production Line and Coil Coating Lines have been completed as scheduled and put into operation to serve their respective purposes. Construction of such major projects as the Second H-shaped Steel Production Line, Profiled Ingot Continuous Casting Machine and No. 2 Galvanising Line has accelerated. The Eleventh Five-Year Plan ("11-5 Plan") of the Company was approved by the National Development and Reform Commission on 24 November 2004.

Looking forward to 2005, the global economy is expected to be good on the whole. The PRC will continue to strengthen and improve its macro-economic control measures, adhere to the scientific development viewpoint, insist on full coordination of sustainable development, and to regulate the relationship between the pace of economic development and quality, efficiency and environment. The State's macro-economy will continue to remain in a state of balanced growth.

It is expected that demand from the PRC steel market in 2005 will remain strong while the domestic supply of steel products will also increase. Due to the tight supply and continued surge in the prices of raw materials and fuels as well as electricity, particularly the drastic upsurge in the prices of imported iron ore, steel enterprises, including the Company, are facing greater difficulties in production and their profitability is also subject to serious suppression. Hence, steel enterprises should be prepared for greater challenges ahead.

In 2005, the Group aims to produce 8,500,000 tonnes of pig iron, 9,350,000 tonnes of crude steel and 8,650,000 tonnes of steel products, as well as to achieve 100% in both the production to sales ratio and the payment collection ratio of steel products.

To accomplish the above targets, the Group insists on adopting a market-oriented approach. Supported by technological advancement, and with the stable, balanced and efficient operation of logistics as the objective, the Group is poised to promote system optimisation and dynamic balance through scientific organisation and careful arrangement, with a view to realising maximisation of production capacity and efficiency. Major measures to be taken are as follows:

– To give full play to the production capacity and strive for an even higher production level by adhering to process compliance and promoting process coordination.

– To continue with product structure adjustments; to give full play to economies of scale and variety enhancement effect of the new production lines; to strive to meet the market demand both in terms of variety and quality of products and to achieve efficiency maximisation.

– To strive to promote technological advancement; focusing on R & D capability enhancement and through process optimisation, to support efficiency growth effectively through technological advancement.

– To continue to strengthen and perfect the marketing system and base production on sales and promote sales by production, so as to ensure coordination between production and sales and realise maximisation of product value.

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2005 is the last year for the Company in implementing the structural adjustment scheme of the 10-5 Plan, and also marks the first year of the early commissioning of the technological reforms and structural adjustments of the 11-5 Master Plan. According to the project progress, the Company plans to invest approximately RMB6.37 billion in fixed assets with finance costs of approximately RMB8.47 billion. The Company will complete those key projects such as the second H-shape steel production line, the new No.2 Coke Furnace and the second galvanised production line. With the completion and commissioning of these projects, the Company's production facilities will be greatly enhanced and the market competitiveness of its products will be strengthened. In the meantime, the construction of the Company's 5 million tonne project in the new area is progressing as scheduled.

Gu Jianguo
Chairman

25 April 2005
Maanshan City, Anhui Province, the PRC