

## Chairman's Statement



Dedication to product

# Quality



# ISO90002

## Chairman's Statement

Dear Shareholders,

I am pleased to report that 2005 was a year of creating value and strengthening the foundations for growth for China Special Steel.

### **SATISFACTORY RESULTS**

During 2005, the Group achieved satisfactory performance despite the general market downturn in the steel market in the People's Republic of China which, for the purpose of this report, excludes Hong Kong, Macau Special Administrative Region and Taiwan (the "PRC"). For the year ended 31 December 2005, we have been able to maintain a relatively stable profit margin compared to 2004. We have greatly sped up our business development and strengthened the Group's leading position in the special steel market in the PRC.

During 2005, the Group have made use of its flexible product setup to emphasize its production on products with higher profit margin. Bearing steel remained as the main income source of the Group, its contribution to the Group's turnover increased from 82% in 2004 to 93% in 2005. When compared to 2004, the sales volume of special steel products increased by 19% to approximately 244,437 tonnes in year 2005.

The strong financial performance in 2005 affirmed the Group's sustainability in generating healthy returns for our shareholders even under unfavourable market environment.

### **SUCCESSFUL IPO**

During the year, we devoted our efforts in growing our business and also in laying all the ground work for the listing. Supported by our dedicated staff and professional advisors, the Group was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 May 2005. The global offering were well received by both institutional and public investors. We issued a total of 180,000,000 new shares and raised a gross proceeds of HK\$266.4 million. The satisfactory results of the placing and public offer reflected our investors' confidence on the future of our Group as well as the special steel industry in the PRC.

### **FUTURE EXPANSION AND COST CONTROL**

We strive to maximise our shareholders' value. Our present priority is to complete our equipment refinement project in second quarter of 2006 which will increase our iron-making annual production capacity from 200,000 tonnes to 400,000 tonnes thus relieving our bottleneck in production. Expanding our production capacity will help the Group strengthens its leading position in the market. Our unique arrangement with various iron ore suppliers will also ensure the Company to acquire iron ore at a price below the prevailing market price, thus allowing the Company to further enhance its exceptional low cost structure while maintaining a stable and high quality product standard.

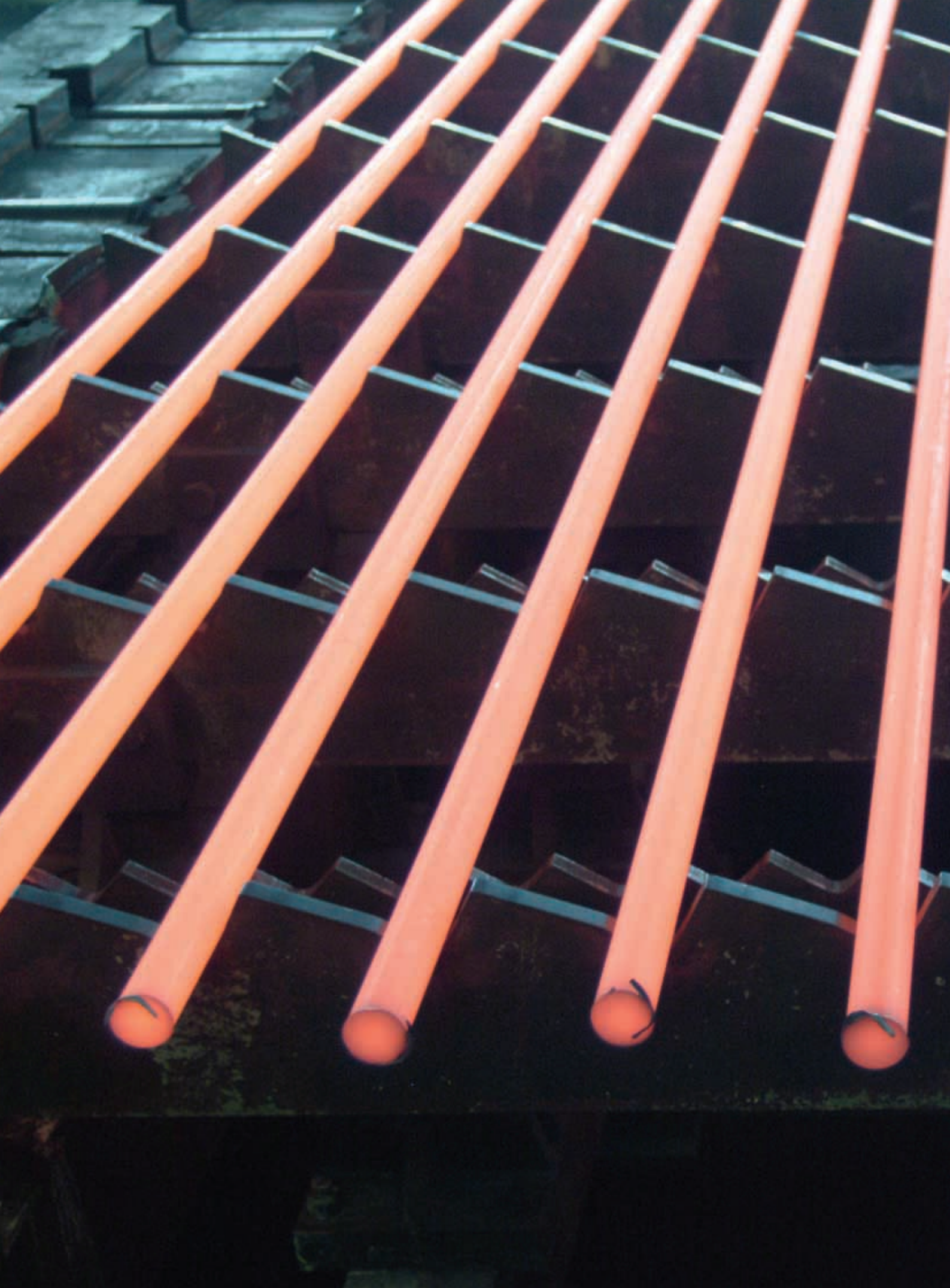
In addition to organic growth, we will keep on considering any good opportunities for merger and acquisition in order to further expand our production capacity to fulfill the market needs.

### **PROSPECTS FOR 2006**

It is our pleasure to report that prospects for 2006 are encouraging. The PRC steel economy is recovering steadily after a fluctuating year in 2005. As the machinery and equipment manufacturing industries continue to grow, demand for special steel will also prosper. We expect to see steady growth in sales volume in the coming years. The Group will closely monitor any changes in the market and continuously expand its market share in its higher margin products. The Group is committed to equipment refinement, improvement of production process, reduction of production cost, reduction of procurement costs of iron ore and thereby strengthening its leadership in the special steel industry in the PRC.

Finally, I wish to thank all of those who contributed to the Group's successful listing and satisfactory result in 2005. I also wish all of our customers, shareholders and employees another good and productive year in 2006.

**Dong Shutong**  
Chairman & CEO





**FLEXIBLE PRODUCT MIX  
WITH EMPHASIS ON HIGH  
PROFIT MARGIN  
PRODUCTS**

Bearing steel remained as the main income source of the Group, its contribution to the Group's turnover increased to 93% in 2005.