

# Chairman's Statement

Dear Shareholders,

I am pleased to present the operating results of the Company and its subsidiaries (collectively the "Group") for 2005.

During 2005, the Group realised a sales income of RMB32,083 million, representing a year-on-year increase of 20%. In accordance with PRC Accounting Standards, net profit amounted to RMB2,848 million, down 20% from the previous year. Earnings per share stood at RMB0.441, representing a year-on-year decrease of 20%. In accordance with Hong Kong Accounting Standards, net profit amounted to RMB2,910 million, down 19% from the previous year. Earnings per share stood at RMB0.451, representing a year-on-year decrease of 19%.



In 2005, global economic growth has apparently slowed down as compared to the previous year, yet growth in the US economy remained strong. The substantial increase in prices of international oil and raw materials incurred enduring effect upon the global economy, including the iron and steel industry which was especially affected by the price surge of iron ore leading to an increase in iron and steel production costs. With a steady and relatively fast pace of development in the national economy, China's GDP increased by 9.9% in 2005 as compared to the previous year, while investment in fixed assets of the society at-large rose 25.7% as compared to the previous year. The iron and steel industry developed rapidly, with the output of crude steel amounting to approximately 350,000,000 tonnes, an increase of 24.6% as compared to the previous year. Due to an over-supply in the steel market resulted from a rapid increase in iron and steel output, prices of steel products continued to drop since April. (Source of statistics: Statistics Bulletin of 2005 National Economy and Social Development published by the National Bureau of Statistics of China)

Faced with changes in the international and domestic environment, the Group strengthened its management, put efforts on reducing production costs and enhanced its standards in production and operation, thereby ensuring an optimisation in production techniques, enhancement of product quality and improvement in technological and economic indicators. The long-term employment system was introduced in key production factories with the first batch of senior technology supervisors recruited under an annual remuneration package. In 2005, the Company produced a total of 8,370,000 tonnes of pig iron, 9,640,000 tonnes of crude steel and 8,890,000 tonnes of steel products, representing increases of 18.39%, 20.05% and 19.65%, respectively, over the previous year. A 100% production to sales ratio and a 100% payment collection ratio for steel products were achieved.

In 2005, the Company made new progress in technological enhancement of its infrastructures, of which the Second H-Beam Production Line was completed and commenced operation, while the No. 2 Galvanisation Production Line was put into trial operation. The Capacity Enhancement of the Train Wheel Rolling System was advanced on schedule. The implementation of the Company's master plan for technological reforms and structural adjustments in relation to the Eleventh Five-year Plan (the "11-5 Plan") (the "11-5 Master Plan") was carried out ahead of schedule. The construction of the New Area Thin Plate Line with a production capacity of 5,000,000 tonnes was executed in full force.

## Chairman's Statement (continued)

At the same time, according to production and operation needs, the Company invested to establish Ma'anshan BOC-Ma Steel Gases Company Limited (馬鞍山馬鋼比歐西氣體有限責任公司), 馬鞍山馬鋼華陽設備診斷工程公司, 馬鞍山港口(集團)有限責任公司, Masteel (Jinhua) Processing Co., Ltd. and Maanshan Iron and Steel (Australia) Proprietary Limited, while the steel structure manufacturing and installation business and the electrical and mechanical installation business were acquired from Magang (Group) Holding Company Limited ("Holding"). The Company also established branch companies for the steel structure manufacturing and installation business and the electrical and mechanical installation business.

Looking ahead, global economic growth will remain relatively steady in 2006, but there will be more uncertainties in the aspects of energy, raw materials and exchange rates. National economic growth in the PRC will remain steady and relatively rapid, yet structural incompatibilities still remain, and attention should be paid to managing the interrelationships between the pace and substance of economic development, and between cost efficiency and the environment. The improvement in people's consumption structure and the acceleration of industrialisation and urbanisation will lead to a continuous increase in market demand for steel products. Competitions among iron and steel enterprises will enlarge to a more extensive scale and will be raised to a higher level. Prices of iron ores, fuel and electricity will remain high, which will pose greater difficulties to the production and operation of iron and steel enterprises, thereby squeezing their profit margins.

In 2006, the Group targets to produce 8,700,000 tonnes of pig iron, 10,000,000 tonnes of crude steel and 9,320,000 tonnes of steel products, as well as to achieve a 100% production to sales ratio and a 100% payment collection ratio for steel products.

To accomplish the above targets, the Group will focus on cost reduction and brand enhancement, further improving its economic effectiveness through exploration of unutilised potentials and minimising the impact of unfavourable factors upon the Company's profitability. Major measures to be taken are as follows:

- To maintain an equilibrium in the system on the basis of stable and balanced output, fully capitalising on production potentials.
- To achieve cost reduction and efficiency enhancement with technology advancements as support.
- To deploy flexible strategies in sales and marketing according to consumption differentiation and to achieve maximisation of resources efficiency.
- To initiate savings by all staff and continue to develop a recyclable economy.
- To expand the effectiveness of branding and to achieve maximisation of economic efficiency.

Finally, on behalf of the Board of Directors, I express my gratitude to all shareholders for their keen support to the Company over the past year. In the new year, the Board of Directors of the Company will endeavour to perform their duties diligently and faithfully, thereby bringing better returns to shareholders.

**Gu Jianguo**  
*Chairman*

11 April 2006  
Maanshan City, Anhui Province, the PRC