

To Shareholders:

I am pleased to report the operations of the Company for year 2006 to you.

In 2006, the Company continued its "Implementation Year" activities and stressed on the coordination between the production and marketing. Scheduling production with a focus on marketing, the Company organized its production activities guided by the efficiency-oriented principle. As at 31st December 2006, the Company produced 1,360,600 tonnes of coking coal, 2,706,800 tonnes of pig iron, 3,040,400 tonnes of steel and 2,836,100 tonnes of steel products (including steel billets), representing an increase of 19.13%,22.98%,19.79% and 19.61% from the previous year respectively.

Year 2006, a challenging year for the PRC steel industry, witnessed a continuous increase in iron & steel production volume and lingering downturn in steel products market. Meanwhile, the profitability of the Company was decreased as a result of increased cost of steel products which was pushed up by 19% price hike in imported iron ore. In response to the tough situation, the Company put efforts in meticulous management, energy-saving and consumption reduction. By attaching great importance on lowering cost of production, leveraging market opportunities, adjusting operating strategy and improving the quality of products, the Company achieved expected profit target after profitable new products were developed continually.

- **Putting efforts in production scale expansion.**

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- **Strengthening marketing**

After objective analysis to the volatile and changing steel market during 2006, the Company adjusted its sales strategy timely and setting up a leader team in charge of sales to enhance marketing section in reaction to the market dynamics. Meanwhile, the Company adopted active and prospective pricing strategy. By allocating more steel products to the sales branch which can provide favourable price and benefit to the long term development of the Company, it enhanced resources management and optimized its resources orientation. Furthermore, the Company strived to consolidated and developed strategic customers and adjusted product mix while leveraging its product cutting edges and improving the quality of service. As at 31st December 2006, the Company sold 2,883,600 tonnes of steel products (billets), representing an increase of 20.35% from last year.

- **Improving product quality steadily**

To consolidate and improve its product quality, the Company put more emphasis on quality monitoring, follow-up and random check for incoming raw materials. Formulating systems such as Incoming Inspection Measures for Raw Materials and Ancillary Materials, the Company made regular or irregular review to the operation of quality management system and made check to the control of important production process. At the same time, the quality of production process was under control and quality system was operated effectively through key system quality efforts focusing on steel smelting. For 40 targets of quality appraisal established by the Company in 2006, 38 targets were achieved with a target completion rate of 95%. In 2006, 72.76% of its products were honored as famous branded products at Chongqing city or above level, up 9.95% over last year. Its steel plates used for vessel, broiler and shipbuilding were rewarded as "the Famous Brand in China" while the Company was recognized as "Advanced Enterprise of Implementing Performance Excellence Model in PRC".

- **Saving consumption and cost to improve efficiency**

To further strengthen cost management, the Company decomposed the cost indexes in more detail and constructed an assurance system. Meanwhile, it also insisted on cost accounting and consumption analyzing. Setting out from the headstream, the Company adjusted the strategy for iron ore mixing and lowered purchase cost while balancing its supply and inventory to lower the occupancy of capital. Attaching greatest importance on the cost reduction of production process, the major technical and economic indicators were improved considerably, of which 25 or 55.56% indicators recorded a breakthrough in historical standards. As compared with last year, aggregate energy consumption per tonne of steel declined 7.53kg standard coal/per tonne, blast furnace coking rate dropped 11kg per tonnes and steel production per furnace increased 1.92 tonnes.

- **Developing new products to address market needs**

The Company always believes that development of new products is a powerful tool to strengthen and explore product market and thus secure a sustainable development. For the year 2006, the Company developed 6 new products. The production volume and value of new and specialized products amounted to 600,132.92 tonnes and Rmb1, 882,940,000 respectively, representing a year-on-year increase of 32.35% and 25.88%.

In 2007, as China will further promote its "11th Five-Year Plan" to ensure stable growth in national economy and will accelerate the economic development in Western Regions, the demand for iron & steel products will be facilitated. However, due to the lingering domestic steel oversupply and the high prices of iron ore, coal, electricity and natural gas, the Company is still facing the challenge of shrinking profitability. The Company will further expand production capacity, improve product quality, try to develop new products and raise the competitiveness of the products to ensure stable development of production and operation of the Company.

In 2007, the Company's objectives of production and operation are to produce 1,400,000 tonnes of coking coal, 2,860,000 tonnes of pig iron, 3,200,000 tonnes of steel and 3,020,000 tonnes of steel products, with the production and sales ratio of steel products being 100% and the collection rate of accounts receivable being 98% or above. We will take the following measures to achieve the above-mentioned objectives:

1. To stabilize the balanced production, maximize the potential production capacity, and further expand production scale.
2. To enhance the analysis and forecast of the domestic steel market, keep posted of the market situation, adjust the marketing strategy, improve after-sales services and promote sales.
3. To tackle key issues in technology and constantly improve product quality through technologic innovation.
4. To continue cost cutting, implement the optimized ore proportioning plan, and cut costs for each production process by exploring potentials pertinently and by improving technologies.
5. Targeting the market, to develop new products in a pertinent, focused and scientific manner.
6. Centred on the difficulties and problems at each link of production and operation, to promote in-depth meticulous management to constantly improve management.

On behalf of the Board of Directors, I hereby would like to express my gratitude to the full support of all shareholders for the past year. During the coming year, the Board of Directors will fulfil our duty scrupulously, work diligently and maintain integrity to achieve desirable return for shareholders.

Luo Fu Qin
Chairman

20th April 2007
Chongqing, the PRC