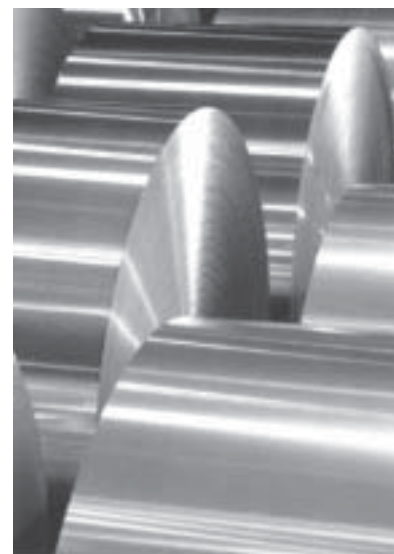


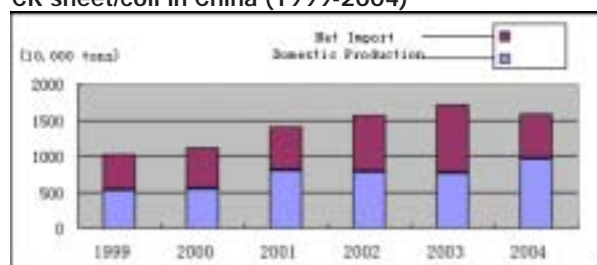
An overview of Chinese CR sheet/coil market

- By Steelworld Research Team



According to the production statistics released by CISA, China's full-year HR sheet/coil output in 2004 stands at 48.44 million tonnes, up 29.52% over the same period last year; CR sheet/coil output, 12.46 million tonnes, up 35.65%; plated

Apparent consumption of CR sheet/coil in China (1999-2004)



sheet output, 4.97 million tonnes, up 47.7%.

Despite the noticeable increase in domestic CR sheet/coil output in 2004, the growth rate of domestic CR commodities (CR output available for market sales) fell below that of CR output, as more CR output was consumed in production of plated sheets last year.

Meantime the price gap between steep international CR market and domestic CR market has resulted in shrinking import of CR sheet/coil into China, hence the relatively short CR supplies in domestic market last year.

According to statistics, homemade CR commodities stand at 9.55 million tonnes in 2004, up 24.5% year-on-year. In the same period, the nation's imports of CR sheet/coil stand at 6.83 million tonnes, down 29% year-on-year; the nation's export of CR sheet/coil, 530,000 tonnes. Thus, the total CR commodities in domestic market add up to some 15.85 million tonnes in 2004, down 7.4% year-on-year.

The shrinking CR commodities are regarded as the direct reason for the strong CR market trend in 2004, which extends its presence into 2005. By the end of Jan, 0.5mm CR coil soared to RMB 8000/ton, 1.0mm CR coil, to RMB 7080/ton.

II. Forecast on CR market in 2005

1. Resource Supply:

With the operational start-up of some new CR lines, domestic supplies of CR resources will continue to increase in 2005. The major CR production

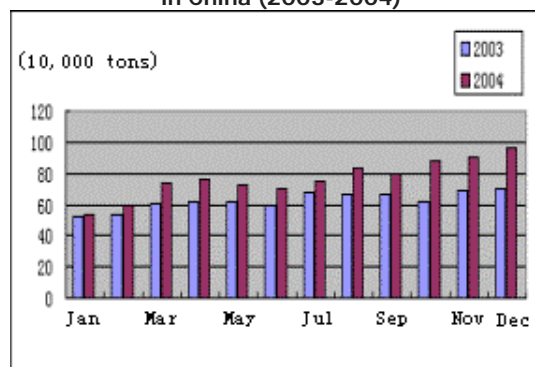
lines to start operation in 2005 are listed below:

(1). Baosteel, 1800mm CR unit, 1.7 million tonnes per year (including 900,000 tonnes of CR sheet and 800,000 tonnes of HD galvanized sheet), trial production initiated at the end of 2004.

(2). Wuhan Steel, 2230mm CR unit, 2.15 million tonnes per year, operational start-up slated for 2005.

(3). Handan Steel, 1900mm CR unit, 1.3 million tonnes per year

Monthly CR sheet/coil production in China (2003-2004)



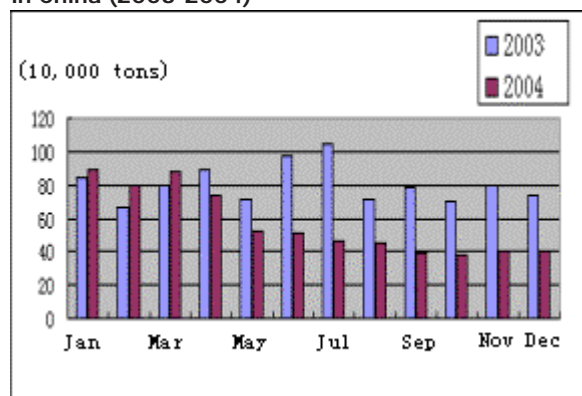
(including 800,000 tonnes of commodity CR sheet/coil, 220,000

tonnes HD galvanized sheet, 120,000 tonnes of commodity color-coated coil and 160,000 tonnes of hardened

million tonnes per year (including commodity CR products of 700,000 tonnes).

put into operation, monthly CR production in China will grow gradually in a full-year perspective.

Monthly CR sheet/coil import in China (2003-2004)



sheet), operational start-up slated for Mar 2005.

(4). Baotou Steel, a CR line with designed capacity of 1.5 million tonnes per year (including 600,000 ton of CR coil, 410,000 tonnes of HD galvanized sheet, 150,000 tonnes of color-coated coil and 340,000 tonnes of hardened CR coil) will start operation in Mar 2005 with initial CR output of 600,000 tonnes per year in 2005.

(5). Ma'anshan Steel, a 1700mm pickling unit will realize full operation in 2005 with designed capacity of 1.4

(6). Benxi Steel, 1700mm CR project with designed capacity of 1.8 million tonnes per year, operational start-up slated for the end of 2005.

(7). Jinan Steel, a CR pickling line with designed capacity of 1 million tonnes per year will be put into operation in Jul 2005.

It is estimated that homemade CR products available for commodity sales will be some 13 million tonnes in 2005. Considering the estimated CR import/export figures for 2005 (imports estimated at 7-7.5 million tonnes, exports estimated at 530,000 tonnes), the total CR commodities available for sales this year will range from 19 million tonnes to 19.5 million tonnes, up 20-23% over 2004.

(2). According to estimates made earlier by WSD, FOB export prices of HR sheet/plate would peak in Jan 2005, remain stable in Feb and Mar and face possible declines in Q2. This trend will deliver certain impacts on CR markets both at home and aboard.

The following diagram shows the historical CR sheet prices in international market from Jan 2004 to Jan 2005.

(3). Downstream consuming industries will pose increasing demand for CR steel products. China's total demand for automobile will rise to 5.8 million a year, up 12% year on year in 2005; the nation's total output of automobile will increase to some 6 million a year, up 15-20% year on year. Meantime, CR steel demand from home appliance industry will increase by 20%. Taking into consideration CR demand posted by other consuming sectors, the nationwide full-year demand for CR sheet/coil is expected to see an increment of 4-4.5 million tonnes in 2005.

From a general point of view, CR steel supplies in China will shift gradually from "falling short of demand" to "slightly falling short of demand". Market prices of CR products are expected to parachute down after peaking in the first half year.

2. Forecast on CR market trend in 2005:

(1). With more domestic capacity

Historical price index of HR/CR products (Jan 2004 - Jan 2005)

