



MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

In 2003, the Company has put significant efforts to increase production. Production volume of steel exceeded 2,000,000 tonnes and the profit increased over 100% which was the best results in the history of the Company. For the year ended 31st December 2003, the Company's sales revenue amounted to Rmb5,609,309,000, profit before tax amounted to Rmb967,781,000 and earnings per share amounted to Rmb0.918, representing a growth of 34.12%, 238.67% and 241.55% respectively from last year.

I. Significant increase in sales revenue

In 2003, the Company's sales revenue amounted to Rmb5,609,309,000, of which Rmb5,165,343,000 was derived from sales of steel products (billets), accounting for 92.09% of the total revenue, an increase of 34.66% from last year, and Rmb443,966,000 was derived from sales of non-steel products, such as water granulated slag, cutting steel leftover and hydroelectricity, which accounted for 7.91% of the total revenue, an increase of 28.14% from last year.

Turnover	2003		2002		Increase / (decrease)
	Amount (Rmb 0,000)	Percentage (%)	Amount (Rmb 0,000)	Percentage (%)	
Steel plates	279,596	49.85	187,233	44.77	49.33
Steel sections	113,238	20.19	75,027	17.94	50.93
Wire rods	52,068	9.28	49,144	11.75	5.95
Steel billets	71,632	12.77	72,191	17.26	-0.77
Subtotal	516,534	92.09	383,595	91.72	34.66
Others	44,397	7.91	34,648	8.28	28.14
Total	560,931	100	418,243	100	34.12

Sales revenue of the steel products (billets) of the Company for 2003 increased by Rmb1,329,394,000 as compared with last year. This was due to an increase in both production volume and selling prices. The sales of the steel products (billets) was 1,864,800 tonnes (all sold domestically) for the year, an increase of 6.9% from last year, resulting in an increase in sales revenue of Rmb309,720,000. The average selling price of steel products was Rmb2,770 per tonne, an increase of 25.97% from last year, resulting in an increase in sales revenue of Rmb1,019,670,000.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Operating Results (continued)

Sales Volume	2003 (0,000 tonnes)	2002 (0,000 tonnes)	Increase / (decrease) (%)	Increase / (decrease) (Rmb 0,000)
Steel plates	89.11	77.69	14.70	27,522
Steel sections	45.41	34.68	30.94	23,209
Wire rods	20.89	25.31	-17.46	-8,584
Steel billets	31.07	36.76	-15.48	-11,175
Total	186.48	174.44	6.90	30,972

Selling Price	2003 (Rmb/tonne)	2002 (Rmb/tonne)	Increase (%)	Increase in revenue (Rmb 0,000)
Steel plates	3,138	2,410	30.21	64,872
Steel sections	2,493	2,163	15.26	14,979
Wire rods	2,492	1,942	28.32	11,490
Steel billets	2,306	1,964	17.41	10,626
Average/ total	2,770	2,199	25.97	101,967



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Operating Results *(continued)*

II. Double in profit

Profit before tax amounted to Rmb967,781,000 for the year 2003, representing an increase of Rmb682,023,000 or 238.67%, which was mainly attributable to the increase in gross profit.

1. Gross profit amounted to Rmb1,387,706,000, an increase of Rmb719,520,000 as compared with last year.
 - (1) The sales volume of steel products (billets) increased by 120,400 tonne as compared with last year, resulting in an increase in gross profit by Rmb47,920,000.
 - (2) Average selling price of steel products (billets) increased by Rmb571 per tonne as compared with last year, resulting in an increase in gross profit by Rmb1,019,670,000.
 - (3) Increase in production volume and decline in energy and material consumption contributed Rmb71,270,000 to gross profit.

In 2003, the Company's production volume of coke, pig iron, steel and steel products increased by 8.61%, 8.91%, 10.23% and 6.68% respectively, and costs declined by Rmb48,980,000. The Company's aggregate energy consumption rate per tonne was 799kg of standard coal, a decrease of 20kg of standard coal as compared with last year, resulting in a saving of Rmb12,070,000 in costs. The consolidated output ratio was 91.83%, representing an increase of 1 centi-point and a cost saving of Rmb10,220,000.

- (4) Increase in purchase prices of ore, coal, pig iron, alloy and scrap iron led to a decrease in gross profit by Rmb404,170,000.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Operating Results *(continued)*

II. Double in profit *(continued)*

2. Other revenues amounted to Rmb12,694,000, represented an increase in profit by Rmb1,840,000 as compared with last year.
3. Administrative expenses amounted to Rmb156,342,000, representing a decrease of Rmb24,002,000 as compared with last year. This was mainly attributable to write-back of certain bad debt provision as a result of settlement of certain long outstanding receivables.
4. Distribution costs amounted to Rmb136,283,000, representing an increase of Rmb10,596,000 as compared with last year, which was mainly attributable to an increase in transportation costs.
5. Net finance costs amounted to Rmb67,156,000, representing an increase of Rmb3,165,000 as compared with last year. This was mainly attributable to an increase in interest expenses resulting from a net increase in bank loans of Rmb440,370,000.
6. Other operating expenses amounted to Rmb72,838,000, representing an increase of Rmb49,578,000 as compared with last year. This is mainly attributable to provisions for impairment of fixed assets and loss from disposal of fixed assets of Rmb66,980,000, an increase of Rmb52,132,000 as compared with last year, as a result of advancements of technology.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

III. Further improvement in financial position

1. Decrease in gearing ratio

At the end of 2003, the Company's total assets increased by 27.76% to Rmb5,911,665,000 as compared with last year, which was mainly attributable to an increase in fixed assets and current assets. Total liabilities increased by 16.61% to Rmb 2,697,886,000 as compared with last year, which was mainly attributable to the increase in long-term liabilities. Gearing ratio was 45.52%, representing a decline of 4.36 centi-point as compared with last year.

2. Liquidity ratio was improved. At the end of 2003, the Company's current assets was Rmb2,618,176,000, an increased of 58.25% as compared with last year, which was mainly attributable to the increase in bank deposits. Current liabilities remained at Rmb2,007,886,000. Liquidity ratio was 130.39%, representing an increase of 49 centi-point as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Operating Results *(continued)*

III. Further improvement in financial position *(continued)*

3. Increase in net cashflow. In 2003, the settlement of accounts receivable was improved. Meanwhile, in order to prepare for further expansion of production and improvement of its liabilities structure, the Company increased its long-term loans. Gross cash inflow, gross cash outflow and net cash inflow for the year amounted to Rmb8,419,556,000, Rmb7,466,029,000 and Rmb953,527,000, respectively. The Company's bank and cash balances amounted to Rmb1,346,583,000 as at 31st December 2003.

Cash inflow (Rmb 0,000)		Cash outflow (Rmb 0,000)	
(1) Cash from operating activities	707,926	(1) Cash paid for operating activities	578,228
(2) Disposal of fixed assets	1,124	(2) Cash paid for investing activities	63,617
(3) New bank loans	131,280	(3) Repayment of bank loans	86,880
(4) Interest income	744	(4) Interest payments	7,501
(5) Other cash received	881	(5) Repayment of loans owing to the Holding Company	1,865
		(6) Dividend payments	8,512
Total	841,955		746,603

Cash paid for investing activities:

- (1) The Company paid Rmb572,372,000 for acquisitions of fixed assets, which mainly included projects such as overhaul to blast furnace No. 3, cold rolled sheet, renovation of the casting machine, overhaul to coke furnace No. 2 and the steel rod roller.
- (2) The Company paid Rmb63,798,000 for the acquisition of Hengda's assets.