

# DISCUSSION AND ANALYSIS OF THE THE MANAGEMENT

## 1. REVIEW OF OPERATIONS

In 2000, the iron and steel market in the PRC has recovered and the price of steel products increased. The overall prices of the Company's steel products has increased by 8.57% as compared with 1999, which helped to improve the Company's profitability during the year. The Company made various efforts to enhance its sales and marketing, reduce costs, strengthen science and technology development, improve its product mix and increase product quality. All these efforts contributed to the steady increase in the Company's efficiency.

### (i) Operating Result

The Company recorded net profit of Rmb491,395,000 under International Accounting Standards for the year ended 31st December, 2000, representing an increase of 66.34%, as compared with the previous year, and basic earnings per share were Rmb0.188.

In accordance with PRC Accounting Standards, the Company recorded net profit of Rmb489,749,000 for the year ended 31st December, 2000, representing an increase of 68.15%, as compared with the previous year, and weighted average earnings per share were Rmb0.187.

### (ii) Analysis of Financial and Operational Status

(In accordance with PRC Accounting Standards)

Item	2000 Rmb'000	1999 Rmb'000	Increase /(decrease) (%)	Reasons for change
Total assets	9,565,110	6,971,340	37.21	(a)
Long-term liabilities	271,901	240,000	13.29	(b)
Shareholders'fund	7,017,861	5,431,939	29.20	(c)
Profit from principal business	1,032,303	587,045	75.85	(d)
Net profit	489,749	291,261	68.15	(d)

*Notes:*

- (a) Increase in total assets is mainly attributable to increase in deposit owing to the issue of convertible debentures of Rmb1.5 billion in the PRC during the period from 15th to 17th March, 2000, and increase in profit for the year.
- (b) Increase in long-term liabilities is the balance of unconverted convertible debentures.
- (c) Increase in shareholders' fund is attributable to 409 million shares converted from convertible debentures which increased capital reserve by Rmb950 million.
- (d) Increase in profit from principal business and net profit is attributable to the profit from the Large Section Plant for the whole year, the profit from the Steel Smelting Plant as well as increase in prices of some of the Company's products.

(iii) Employees and their Qualifications

As at 31st December, 2000, the Company had 8,454 employees, of whom 6,451 were involved in production, 31 were sales personnel, 641 were technicians, 52 were accounting personnel, 390 were administrative personnel. Among them, 390 had bachelor or higher degrees, representing 4.61% of the total number of the employees; 466 had technical diplomas, representing 5.51% of the total number of the employees; 369 had secondary education, representing 4.36% of the total number of the employees.

## **2. IMPACT OF TAX RATE, EXCHANGE RATE AND INTEREST RATES**

In 2000, the tax rate applicable to the Company did not change. Exchange rate for converting Renminbi to US dollars has slightly changed. These factors did not significantly affect the financial position of the Company. In 2000, the change in exchange rate did not constitute substantial impact on the financial position of the Company.

## **3. INVESTMENT**

### **(i) Use of Proceeds from Capital Raised**

The Company issued 890,000,000 H Shares and 300,000,000 A Shares in July and November 1997 respectively, raising a total of approximately Rmb2,633,000,000. In March 2000, the Company issued convertible debentures of Rmb1,500,000,000, with net proceeds of Rmb1,480,000,000, in the PRC. The use of these proceeds are as follows:

Capital Expenditure Projects		Gross	Amount	Actual	Project Progress
		Investment	of Proceeds	Investment	
		<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	
1.	Construction of the Steel Smelting Plant	2,400,000	1,780,000	1,222,710	Completed
2.	Installation of the combined pickling and continuous rolling line	700,000	550,000	639,630	Installation of mechanical equipment was completed. Accurate adjustment has been made. Trial production was started in May 2000
3.	Joint venture on the construction of galvanized steel production line	250,000	250,000	930	A preliminary joint venture agreement with Thyssen Stahl AG was signed
4.	Construction of cutting and packaging line	60,000	50,000	60,000	Completed
5.	Renovation of Cold Rolling Plant	1,950,000	-	-	Preliminary work in progress
6.	Renovation of No.2 and No.3 cutting line	100,000	-	-	Preliminary work in progress
7.	New distribution center	180,000	-	-	Preliminary work in progress

As the construction period for most of the above capital expenditure projects is expected to be comparatively long, the Company has therefore applied an amount of Rmb840,000,000 out of the proceeds for the repayment of its bank loans and loan from Angang Holding in order to reduce its financial expenses. The balance of the proceeds of Rmb1,078,280,000 is presently deposited with banks.

#### **4. THE IMPACT OF CHINA'S ACCESSION TO THE WTO ON THE COMPANY'S FUTURE DEVELOPMENT**

Following the anticipated China's accession to the WTO, the domestic and overseas iron and steel market will be integrated and the prices of various steel products in domestic market will be in line with international standards. Therefore it is likely that the efficiency of Chinese iron and steel industry will be adversely affected. However, given that the prices of Company's six major products are close to those in international market, it is expected that the Company will not be affected extensively.