Discussion and Analysis of the Management

1. REVIEW OF OPERATIONS

As triggered by the rapid growth of the PRC economy, the demand for steel products surged significantly in 2002. In view of the increasing demand, the Company adopted a number of measures such as realignment of its product mix, increasing the proportion of high value-added products, expanding production scale so that the average price of the Company's products increased by 3.09% for the 2002 as compared with the price in 2001. As a result, the Company's production and operation were maintained at relatively high levels.

(i) Operating Results

In accordance with IFRS, the Company and its jointly controlled entity (the "Group") recorded a net profit of Rmb598,316,000 for the year ended 31 December 2002, representing an increase of 63.26% as compared with the previous year, and basic weighted average earnings per share was Rmb0.202.

In accordance with PRC Accounting Rules and Regulations, the Group recorded a net profit of Rmb594,588,000 for the year ended 31 December 2002, representing an increase of 47.27% as compared with the previous year, and basic weighted average earnings per share was Rmb0.20.

(ii) Analysis of the Group's Financial and Operational Status (Unit: RMB'000)

(In accordance with PRC Accounting Rules and Regulations)

Item	2002	2001	Change (%)
Total assets	**12,425,350**	10,237,888	21.37
Long-term liabilities	**1,473,121**	419,388	251.25
Shareholders' fund	**7,509,361**	7,201,397	4.28
Income from principal operations	**10,771,077**	9,490,523	13.49
Profit from principal operations	**1,272,680**	1,034,318	23.05
Net profit	**594,588**	403,743	47.27
Net increase/(decrease) in cash and cash equivalents	**940,822**	(1,523,215)	161.77

1. REVIEW OF OPERATIONS *(continued)*

(ii) Analysis of the Group's Financial and Operational Status (Unit: Rmb'000) *(continued)*

(In accordance with IFRS)

Item	2002	2001	Change (%)	Reasons for change
Total assets	**12,293,565**	10,101,922	21.70	A
Long-term liabilities	**1,472,264**	417,529	252.61	B
Shareholders' funds	**7,674,255**	7,303,742	5.07	
Turnover	**10,746,477**	9,465,247	13.54	C
Profit from principal operations	**1,265,561**	1,038,772	21.83	D
Net profit	**598,316**	366,481	63.26	E
Net increase/(decrease) in cash and cash equivalents	**990,822**	(916,010)	208.17	F

Notes:

A. The increase in total assets was attributable to net profits generated from operating activities and increase in borrowings as a result of more financing activities and increase in cash at banks and in hand, construction in progress, inventories and consolidation of assets of the jointly controlled entity;

B. The surge in long-term liabilities was mainly due to more technological renovation projects undertaken during the year which led to an increase in long-term bank loans of Rmb1,063,000,000;

C. The increase in turnover was mainly attributable to rise in product sales, increase in the sales proportion of the high value-added products and rise in prices of products;

D. The rise in profit from principal operations was mainly caused by an increase in income from principal operations;

E. The surge in net profit was mainly due to increase in profit from principal operations;

F. The increase in net increase in cash and cash equivalents was mainly resulted from the rise in cash received from sales of products and increase in bank loans.

1. REVIEW OF OPERATIONS *(continued)*

(iii) Number of Employees of the Company, Employees' Qualifications, Salary Policy and Training

As at 31 December 2002, the Company had 7,991 employees, of whom 5,630 were involved in production, 37 were sales personnel, 381 were technicians, 63 were accounting personnel, 670 were administrative personnel. Among them, 765 had bachelor or higher degrees, representing 9.57% of the total number of the employees; 1,072 had technical diplomas, representing 13.42% of the total number of the employees; 369 had secondary education, representing 4.62% of the total number of the employees. As at the end of the year, the Company had to bear the cost for 868 staff members who were retiring.

During the year, the Company implemented a position-related salary system and floating annual salary system for its senior management, pegging their salaries to the overall operating results of the Company as well as to their personal performance and the operating indices undertaken. A position-related salary system was also implemented for production and technical staff, pegging their salaries to the relevant production and operations indicators. In addition, the salaries of sales personnel were pegged to the profits from turnover. In order to upgrade the service standard of the staff, the Company provided them with various types of training, including a three-day training in respect of briefing on position to all staff during the year, training on specialized legal knowledge and technical training was provided to over 500 staff members.

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

In 2002, the tax rate applicable to the Company did not change. Exchange rate for converting Renminbi to US dollars has changed slightly. These factors did not significantly affect the financial position of the Company. In 2002, the change in interest rate did not have a substantial impact on the financial position of the Company.

3. INVESTMENT OF THE COMPANY

(i) Use of Proceeds

The Company issued 890,000,000 H Shares and 300,000,000 A Shares in July 1997 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, raising a total of Rmb1,480,000,000, in the PRC. The Company has raised a total amount of Rmb4,113,000,000.

3. INVESTMENT OF THE COMPANY *(continued)*

(i) Use of Proceeds *(continued)*

Unit: Rmb'000

Projects undertaken	Proposed investment	Changes in use of proceeds	Actual investment	Actual (estimated) benefits	Whether progressing as scheduled and estimated return
Construction of steel smelting plant	2,400,000	No	1,540,992	100,200	Yes
Renovation of the combined pickling and continuous rolling line	700,000	No	645,434	70,000	Yes
Construction by the jointly controlled entity of the galvanised steel production line	Total project investment: 1,494,000 The Company's total investment: 250,000	No	Total project investment: 573,000 The Company's total investment: 248,305	Estimated to be 15.51%	No
Renovation of the Cold Rolling Plant 1700 cross cutting lines	60,000	No	60,000	10,000	Yes
Renovation of cold rolling line	1,950,000	No	1,116,578	Estimated to be 13.29%	Yes
Cold Rolling Plant's renovation of No. 2 and 3 cross cutting lines	100,000	No	32,960	21,000	Yes
Distribution centre for Cold Rolling Plant	180,000	No	0	Estimated to be 15.66%	No
Total	5,640,000	—	3,644,269	—	—

(ii) Status of unused proceeds

The Company has raised a total amount of Rmb4,113,000,000, of which Rmb3,644,269,000 has been used in the relevant projects. The total amount of proceeds used in the year amounted to Rmb702,849,000. As most of the projects of the Company require substantial time for construction and are long term investments, the Company has therefore applied Rmb240,000,000 out of the proceeds for the repayment of its bank loans and loans from Angang Holding in order to reduce its financial expenses. The remaining Rmb229,000,000 was deposited with banks.

3. INVESTMENT OF THE COMPANY *(continued)*

(iii) Progress on uncompleted projects financed by proceeds

The joint venture between the Company and Thyssen Stahl AG to construct and operate the proposed galvanised production line was not established on schedule due to the following factors: Thyssen Stahl AG was undergoing reorganisation with Krupp when the Company was negotiating with Thyssen Stahl AG; the difficulty and the time required for negotiations were beyond initial expectations and the time required for submission for approval was longer than expected. Currently, ANSC-TKS Galvanizing Co., Ltd ("ANSC-TKS"), a jointly controlled entity established by the parties, has been working for the implementation of such project. Its completion and commencement of operation were initially expected to take place in June 2003. However, the new distribution centre for the Cold Rolling Plant was not completed on schedule and therefore the implementation plan for such project is subject to further analysis.

(iv) Progress of investment of non-publicly raised funds

i. For the setting up of the Company's galvanized steel sheet production line and colour coating steel sheet production line, the planned investment was Rmb2,640,000,000. As at 31 December 2002, Rmb870,687,000 had been invested.

ii. For the alteration project for the Large Section Plant, the planned investment was Rmb689,000,000. As at 31 December 2002, Rmb662,266,000 had been invested.

iii. For the renovation of the flattening machine of the Thick Plate Plant and alteration of the main power supply unit of the plant, the planned investment was Rmb370,000,000. As at 31 December 2002, Rmb221,452,000 had been invested.

The commencement of operations of the above projects is expected to take place in 2003.

4. THE IMPACT OF THE OPERATING ENVIRONMENT, MACROECONOMIC POLICY AND CHANGES IN LAWS AND REGULATIONS ON THE COMPANY

Since 23 March 2002, the Ministry of Foreign Trade and Economic Cooperation of the PRC announced that it had placed a case on file for investigation on anti-dumping for imported cold rolled steel sheets produced in Russia, Korea, Kazakhstan, Ukraine and Taiwan.

On 24 May 2002, the Ministry of Foreign Trade and Economic Cooperation of the PRC announced that a temporary protection measure in respect of nine types of imported steel products such as ordinary medium-gauge plates was adopted and that an import quota would be implemented. A special tariff at 7% to 26% would be imposed on any imported products in excess of the quota for a period of 180 days.

4. THE IMPACT OF THE OPERATING ENVIRONMENT, MACROECONOMIC POLICY AND CHANGES IN LAWS AND REGULATIONS ON THE COMPANY *(continued)*

The Ministry of Foreign Trade and Economic Cooperation of the PRC announced that a final protection measure with respect to five types of imported steel products such as ordinary hot rolled steel sheets, cold rolled steel sheets (strips), colour coating steel sheets, non-tropism silicon electric steel and cold rolled stainless steel sheets (strips) was implemented on 20 November 2002.

These measures are important for ensuring that order is maintained in respect of the import and export. Trading of steel and the healthy development of the domestic steel market as well as facilitating the business development of the Company.

5. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE OF THE GROUP (IN ACCORDANCE WITH IFRS)

As at 31 December 2002, the Group had a long term loan of Rmb1,463,000,000 with an annual interest rate of 5.49%. The term of the loan is 3 years and the loan was mainly used for technological improvement.

As at 31 December 2002, the Group had cash and cash equivalents of Rmb1,702 million, which increased by Rmb991 million from Rmb711 million from the previous year. It was attributable to increase in cash received from sales of products and bank loans.

In 2002, the total assets less current liabilities of the Group amounted to Rmb9,147 million, compared with Rmb7,721 million in 2001. The shareholders' fund of the Group amounted to Rmb7,674 million in 2002, compared with Rmb7,304 million in 2001.

6. ASSETS PLEDGED

ANSC-TKS, the Company's jointly controlled entity, pledged certain of its land use rights, construction in progress, properties, buildings, machinery and equipment to Bank of China as securities for a loan. The Company had pledged the 50% equity interests held by it in ANSC-TKS to Bank of China.

7. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2002, the Group had capital commitment of Rmb3,428 million, which was for financing the construction costs of projects.

As at 31 December 2002, the Group did not have any contingent liabilities.

8. FOREIGN EXCHANGE RISK

The Company does not have any significant foreign currency risk exposure arising from its sales and purchases of raw materials for production as these transactions are mainly carried out in Renminbi, with the exception of a small portion of export sales conducted in foreign currencies. The Company incurs foreign currency risks on commitments to purchase plant and equipment in currencies other than Renminbi. The Company uses foreign currency deposits to hedge such foreign currency risks.

9. GEARING RATIO

In accordance with IFRS, the shareholders' funds to liabilities ratio of the Group in 2002 was 1.66 times, compared with 2.61 times in 2001.