

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2003, the prices of steel products rose in the PRC as their demand increased. By taking advantage of this opportunity, the Company was able to fully explore the production potential and strived to expand the scale of production and sales. As a result, there was a significant increase in the operating results and further improvement in the financial position. As at 30 June 2003, the Company achieved a sales revenue of Rmb2,610,018,000, representing an increase of 43.82% or Rmb795,201,000 over the same period of last year. Profit before taxation was Rmb388,523,000, representing an increase of 323.04% or Rmb296,683,000 over the same period of last year. Earning per share was Rmb0.376, 3.82 times over the same period of last year.

1. INCREASE IN SALES REVENUE

For the first half of 2003, the Company's total revenue amounted to Rmb2,610,018,000, of which Rmb2,406,270,000 was derived from sales of steel products, representing 92.19% of the total revenue, up 45.34% over last year, and Rmb203,750,000 was derived from sales of products, such as water granulated slag, coking by-products, hydroelectricity, which accounted for 7.81% of the total revenue, up 27.99% from last year.

Turnover	First half of 2003		First half of 2002		Change for
					first half of
	Amount	Percentage	Amount	Percentage	2003 from first
	(Rmb0'000)	(%)	(Rmb0'000)	(%)	half of 2002
Steel Steel plates	130,042	49.82	77,814	42.88	67.12
Steel sections	51,745	19.83	34,463	18.99	50.15
Wire rods	22,419	8.59	18,357	10.12	22.13
Steel billets	36,421	13.95	34,929	19.25	4.27
Subtotal	240,627	92.19	165,563	91.24	45.34
Others	20,375	7.81	15,919	8.76	27.99
Total	261,002	100.00	181,482	100.00	43.82

Sales of the Company's steel products for the first half of 2003 surged by Rmb750,640,000 over last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. INCREASE IN SALES REVENUE (CONTINUED)

1. During the first half of the year, the Company sold 918,600 tonnes of steel products, up 17.29% over the same period of last year, and raising revenue by Rmb304,780,000.

Sales Volume	First half of	First half of	Growth over	Growth
	2003	2002	first half	in revenue
	(0,000 tonnes)	(0,000 tonnes)	of 2002	(Rmb0,000)
			(%)	
Steel plates	43.81	34.28	27.80	21,632
Steel sections	21.94	16.21	35.35	12,182
Wire rods	9.93	9.78	1.53	282
Steel billets	16.18	18.05	(10.36)	(3,618)
Total	91.86	78.32	17.29	30,478

2. During the first half of the year, the average selling prices of the Company's steel products was Rmb2,619 per tonne, up 23.89% over the same period of last year, and raising sales revenue by Rmb445,860,000.

Selling Price	First half of	First half of	Increase in	Increase
	2003	2002	first half of	in revenue
	(Rmb/tonne)	(Rmb/tonne)	2003 from the	(Rmb0,000)
			first half of 2002	
			(%)	
Steel plates	2,968	2,270	30.75	30,578
Steel sections	2,359	2,126	10.96	5,112
Wire rods	2,258	1,877	20.30	3,783
Steel billets	2,251	1,935	16.33	5,113
Total	2,619	2,114	23.89	44,586

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. INCREASE IN PROFIT

In the first half of 2003, profit before taxation increased by Rmb296,683,000 from Rmb91,840,000 for the same period of last year to Rmb388,523,000 of which

1. Gross profit margin was Rmb601,016,000, representing an increase of Rmb368,084,000 over the same period of last year.
 - (1) In the first half of 2003, 918,600 tonnes of steel products were sold, representing an increase of 135,400 tonnes and an increase in profit of Rmb40,280,000 over the same period of last year.
 - (2) In the first half of 2003, the average selling prices of steel products were Rmb2,619 per tonne, representing an increase of Rmb505 per tonne and an increase in profit of Rmb445,860,000 over the same period of last year.
 - (3) Since the rise in the prices of upstream products such as procurement of raw materials from an outside source and fuel energy as well as the increase in depreciation expenses and wage costs offset the unit cost reduction as a result of increase in output, the costs still increased and profit decreased by Rmb118,060,000.
2. Other revenues amounted to Rmb4,930,000 leading to an increase in profit by Rmb949,000 from the same period of last year.
3. Distribution costs amounted to Rmb64,327,000, representing an increase of Rmb11,048,000 from the same period of last year, which was mainly attributable to a rise in transportation costs arising from an increase in sales volume.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. INCREASE IN PROFIT (CONTINUED)

4. Administrative expenses amounted to Rmb85,401,000, representing an increase of Rmb29,269,000 from the same period of last year, which was mainly attributable to an increase in wages of staff and accordingly an increase in social security expenses and other surcharges.
5. Other operating expenses amounted to Rmb38,171,000, representing an increase of Rmb34,559,000 from the same period of last year. These expenses included Rmb25,729,000 provision for impairment of fixed assets
6. Finance costs amounted to Rmb29,524,000, representing a decrease of Rmb2,525,000 from the same period of last year. This was mainly attributable to an increase in interest on bank deposits and a decrease in rates for discounted bills.

3. SOUND FINANCIAL POSITION

In the first half of 2003, the financial position was further improved as cash inflow increased and liquidity ratio rose.

1. In the first half of 2003, net cash inflow from operating activities amounted to Rmb600,740,000. After net cash outflow of Rmb277,969,000 from investment activities was deducted and net cash inflow of Rmb426,070,000 from financing activities was added, bank balances and cash increased by Rmb748,841,000. As at 30 June 2003, the Company's bank balances and cash amounted to Rmb1,141,897,000, all of which was deposited with commercial banks in the PRC. The Company did not have any trust deposits.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. SOUND FINANCIAL POSITION (CONTINUED)

2. As at 30 June 2003, the Company's total assets amounted to Rmb5,416,929,000; total liabilities amounted to Rmb2,780,276,000; asset to liability ratio was 51.33%; current assets amounted to Rmb2,319,423,000; current liabilities amounted to Rmb2,054,946,000; and liquidity ratio was 112.9%, up 32 centi-point over the same period of last year.
3. As at 30 June 2003, the balance of short-term loan of the Company amounted to Rmb655,900,000, the balance of long-term loan amounted to Rmb905,630,000, among which the maturity of Rmb180,300,000 was within one year, the maturity of Rmb395,330,000 was in the second year, the maturity of Rmb330,000,000 was in the third to fifth years inclusive.