

1. REVIEW OF OPERATIONS

In 2004 China's economy grew quickly and created a strong demand for steel products. In addition, government regulatory controls limited low-level and redundant construction in the domestic steel and iron industry which has ensured the smooth development of the PRC steel market. As a result of the general global economic recovery and an increase in international steel consumption there has been a rise in steel product prices worldwide, including prices of domestic upstream steel products. In order to capture the burgeoning market opportunities and lessen the adverse impact from the increase in the price of its raw materials, the Company improved its product mix with increased sales of high value-added products, strengthened its product exports and improved operating efficiencies. In addition, the Company increased its rate of growth and experienced record achievements in its operating results by scaling its production abilities, reducing consumption costs, exploring the potential and increasing its development efforts

(1) Operating Results

In accordance with IFRS, the Group recorded a net profit of Rmb1,797,587,000 for the year ended 31 December 2004, representing an increase of 25.44% as compared with the previous year, and basic weighted average earnings per share was Rmb0.607.

In accordance with the PRC Accounting Rules and Regulations, the Group recorded a net profit of Rmb1,776,337,000 for the year ended 31 December 2004, representing an increase of 24% as compared with the previous year, and basic weighted average earnings per share was Rmb0.600.

(2) Analysis of the Group's Financial and Operational Status

In accordance with the PRC Accounting Rules and Regulations

Item	Unit: RMB'000		
	2004	2003	Change (%)
Total assets	15,343,328	15,011,870	2.21
Long-term liabilities	1,244,548	1,898,337	-34.44
Shareholders' fund	10,133,942	8,948,268	13.25
Income from principal operations	23,227,617	14,520,736	59.96
Profit from principal operations	3,363,488	2,299,052	46.30
Net profit	1,776,337	1,432,579	24.00
Net increase in cash and cash equivalents	141,157	904,925	-84.40

1. REVIEW OF OPERATIONS *(continued)*

(2) Analysis of the Group's Financial and Operational Status *(continued)*

In accordance with IFRS

Item	2004	2003	Unit: RMB'000	
			Change (%)	Reasons for change
Total assets	14,899,934	14,845,674	0.37	A
Long-term liabilities	1,244,548	1,898,002	-34.43	B
Shareholders' fund	10,022,276	8,815,385	13.69	C
Turnover	23,177,863	14,482,148	60.04	D
Gross profit from principal operations	3,372,351	2,276,228	48.16	E
Net profit	1,797,587	1,433,002	25.44	F
Net increase in deposits with banks, cash and cash equivalents	141,157	904,925	-84.40	G

Notes:

- A. The increase in total assets was attributable to the increase in net profit generated from operations;
- B. The decrease in long-term liabilities was due to the re-classification of the long term liabilities due within one year as current liabilities;
- C. The increase in shareholders' fund was attributable to the net profit generated from operations and shares issued upon conversion of convertible debentures;
- D. The increase in turnover was attributable to the increase in sales volume and selling prices as well as the improved product mix;
- E. The increase in gross profit from principal operations was attributable to the increase in sales volume and sales percentage of high value-added products;
- F. The increase in net profit was attributable to the increase in profit from principal operations and profit from other operations;
- G. The decrease in net increased amount of cash and cash equivalents was due the decrease of Rmb403,462,000 in cash flow generated from operations caused by the increased inventories as a result of the expansion of production scale and the increase in raw material prices, the decrease of Rmb649,918,000 in net income generated by fund-raising activities from Rmb785,000,000 in 2003 to Rmb135,082,000 in 2004, and the increase of Rmb296,414,000 in dividend distribution made in fund raising activities from Rmb296,149,000 in 2003 to Rmb592,563,000 in 2004.

1. REVIEW OF OPERATIONS *(continued)*

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

As of 31 December 2004, the Company had 7,305 employees, among whom 4,956 were in production, 42 in sales personnel, 393 in technology technicians, 51 in accounting and 516 in administration. Of the 7,305 Company employees, 936 had bachelor or higher degrees, representing 12.8% of the total number of the employees, 1,084 had diplomas, representing 14.8% of the total number of the employees and 260 had secondary education, representing 3.6% of the total number of the employees.

In 2004, the Company put more efforts in operation and technical training for production operators. A total of 20,000 employees have been trained. During the year, 1,049 in-service employees have passed the national occupational technique appraisal. In addition, training for management and technical staff's English and computer skills were strengthened. A total of 328 staff members were selected to participate in the seven weeks' training for computer skills organised by Angang Staff College, of which 314 employees have passed the internal computer grading appraisal. 258 staff members were selected to take the 20 weeks' training for English organised by Angang Staff College, of which 114 employees have passed the internal English grading appraisal. As a result of these trainings, the overall staff calibre was improved, putting the Company in a better position to achieve production and operation targets in 2004.

The Company implemented wage distribution for its employees in the forms of position-related salary system and annual salary system. The position-related system linked with the overall operating results of the Company.

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

Interest rate of loans denominated in Renminbi is reviewed per annum. After one year from the effective date of loan agreement, the interest rate for the next year will be determined in accordance with the latest interest rate announced by The People's Bank of China corresponding with the relevant types of loans. According to the latest interest rate announced by The People's Bank of China, the Company has loans with principal of Rmb100,000,000 as of 7 November 2004 and 9 December 2004, respectively, with interest rate adjusted from 5.49% to 5.76%.

The tax rate applicable to the Company did not change in 2004 as compared with the previous year. Changes in exchange rates have no material impacts on the Company.

3. INVESTMENT OF THE COMPANY

(1) External Investments

In 2004, the Company's total external investment amounted to Rmb46,664,000, representing an increase by 223.92% over Rmb14,406,000 in the last year.

- 1) On 30 December 2004, the Board held a meeting to approve the Proposal for the Establishment of TKAZ (Changchun) Tailored Blanks Limited. The total investment of the project is US\$10,000,000 with registered capital of US\$5,000,000, out of which (i) US\$2,050,000 was contributed by ThyssenKrupp Laser Blanking and Welding Company Limited (蒂森克虜伯激光拼焊板有限公司), representing 41% of the total registered capital; (ii) US\$1,950,000 was contributed by the Company, representing 39% of the total registered capital; and (iii) US\$1,000,000 was contributed by Wuhan Zhongren Ruizhong Motor Vehicle Spare Parts Company (武漢中人瑞眾汽車零部件產業有限公司), representing 20% of the total registered capital.
- 2) On 1 November 2004, the Board held a meeting to approve the Proposal for the Establishment of ANSC-Xinchuan. The total investment of the project is Rmb700,000,000 and the current registered capital is Rmb40,000,000 which is expected to be increased to Rmb380,000,000, of which the Company and Xinchuan will each contribute 50%. The remaining funds for the project will be financed by loans by the joint venture company.
- 3) On 9 March 2004, the Company established Zhongye Nanfang Engineering Technology Co., Ltd (中冶南方工程技術有限公司) jointly with China Metallurgical Construction (Group) Corporation (中國冶金建設集團公司) Wuhan Iron and Steel (Group) Co., Ltd. (武漢鋼鐵集團公司), Wuhan Qing Shan Qu State-owned Assets Management Co., Ltd. (武漢市青山區國有資產經營有限公司) and Shenzhen International Trust Investment Co., Ltd. (深圳國際信託投資有限責任公司). The registered capital of the joint venture company is Rmb100 million and the Company has a 7% equity interest. The joint venture company is principally engaged in the research and development of new and high technology as well as new equipment, technology transfer, technology consultation, purchase of and service for equipment and material, manufacturing and supply of core equipment and materials, project construction management and the projects contracting.

3. INVESTMENT OF THE COMPANY (continued)

(2) 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 at the total par value of Rmb1,500,000,000, raising a total of Rmb1,480,000,000, in the PRC. The Company has raised funds of a total amount of Rmb4,113,000,000.

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	110,000	Yes
Renovation of the combined pickling and continuous rolling line	700,000	No	645,434	112,800	Yes
Construction of the jointly invested galvanised steel production line	Total project investment: 1,494,000	No	Total project investment: 1,465,290	Total project revenue: -137,999	No
	The Company's total investment: 250,000		The Company's total investment: 248,305	Total revenue of the Company: -69,000	
Renovation of the Cold Rolling 1700 cross cutting lines	60,000	No	60,000	21,600	Yes
Renovation of cold rolling line	1,950,000	No	1,585,710	101,199	No
Cold Rolling Plant's renovation of No. 2 and 3 cross cutting lines	100,000	No	32,960	42,000	Yes
Distribution centre for Cold Rolling Plant	180,000	No	0	15.66% (Estimated)	No
Total	5,640,000	—	4,113,401	318,559	—

Note:

- The joint venture commenced its commercial operations in April 2004. Therefore, its scale of production is relatively small. In 2004, its production volume was 211,600 tonnes while the designed capacity was 400,000 tonnes. With the one-off amortisation of pre-operating expenses of RMB47,182,000 which was relatively higher, the estimated profit from the jointly invested galvanised steel production line was not achieved in 2004.
- The actual revenue from the renovation of cold rolling line is below the estimated revenue mainly due to the relatively higher increase in the price of raw materials in 2004, which resulted in a decrease in gross profit in cold rolled steel products.

At present, the Company's proceeds of Rmb4,113,000,000 have been completely utilised in the relevant projects.

3. INVESTMENT OF THE COMPANY *(continued)*

(3) Progress on incompleting projects financed by proceeds

The delay in completion of the cutting and distribution centre in the Cold Rolled Plant was due to the further analysis required with respect to the Company's operation plans.

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

The Company's galvanized steel sheet production line and colour coating steel sheet production line have been completed and put into operation. As of 31 December 2004, Rmb1,279,656,000 had been invested and an earning of Rmb145,877,000 was generated from the projects in the year.

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

As of 31 December 2004, the Group had long-term loans of Rmb1,245 million (exclusive of loans due within one year) with annual interest rates ranging from 5.49% to 5.76%. The term of the loans ranged from 2 to 10 years and the loans were mainly used for technological renovation. The Group's long-term liabilities due within one year amounted to Rmb1,107 million. With good creditability and high profitability of products, the Company has sufficient cash to repay the existing liabilities falling due in the future.

As of 31 December 2004, the Group's deposits with bank and cash and cash equivalents increased by Rmb141 million to Rmb2,748 million from Rmb2,607 million for the previous year, which was mainly attributable to a decrease in cash outflow from investment activities.

As of 31 December 2004, the Group's total assets less current liabilities amounted to Rmb11,267 million, as compared with Rmb10,713 million in the previous year. The shareholders' fund of the Group amounted to Rmb10,022 million in 2004, compared with Rmb8,815 million as at 31 December 2003.

5. ASSET PLEDGED

One of the Company's joint ventures has pledged its land use rights, construction in progress, properties, buildings, machinery and equipment, and trade receivables to the Bank of China as security for its loans from the Bank of China. In addition, the Company has pledged its 50% equity interests in the joint venture to the Bank of China as additional security for the loans to the joint venture.

6. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2004, the Group had capital commitment of Rmb3,992 million, which was primarily used for construction projects.

As at 31 December 2004, the Group did not have any contingent liabilities.

7. FOREIGN EXCHANGE RISK

The Company does not have any significant foreign currency risk exposure arising from its sales and purchases of equipment and 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.

8. GEARING RATIO

In accordance with IFRS, the shareholders' funds to liabilities ratio of the Group in 2004 was 2.05 times, compared with 1.46 times in 2003.