

MANAGEMENT DISCUSSION AND ANALYSIS

Chongqing Iron & Steel Company Limited

Capturing market opportunities in 2004, the Company took efforts in expanding production by exploring potential; adjusting production mix, promoting sales with stable product prices; together with consumption and cost reductions. Accordingly, despite various difficulties from undersupply and the significant increase in raw materials price, the Company achieved a breakthrough in steel production volume to 2,500,000 tonnes, and maintained good operating results. For the year ended 31st December 2004, the Company's sales revenue amounted to Rmb8,551,923,000, representing an increase of 52.46% from last year. Profit before taxation was Rmb872,156,000 and earnings per share amounted to Rmb0.793, representing a decrease of 9.88% and 13.62% from last year, respectively.

I. Significant increase in sales revenue

In 2004, the Company's sales revenue amounted to Rmb8,551,923,000, of which Rmb8,048,576,000 was derived from sales of steel products (billets), representing 94.11% of the total revenue, an increase of 55.82% from last year, and Rmb503,347,000 was derived from sales of non-steel products, such as water granulated slag, coking by-products, cutting steel leftover and hydroelectricity, which accounted for 5.89% of the total revenue, an increase of 13.38% from last year.

Turnover	2004		2003		Year-on-year growth (%)
	Amount (Rmb0'000)	Percentage (%)	Amount (Rmb0'000)	Percentage (%)	
Steel plates	379,244	44.34	279,596	49.85	35.64
Steel sections	190,789	22.31	113,238	20.19	68.48
Wire rods	103,615	12.12	52,068	9.28	99.00
Steel billets	131,209	15.34	71,632	12.77	83.17
Subtotal	804,857	94.11	516,534	92.09	55.82
Others	50,335	5.89	44,397	7.91	13.38
Total	855,192	100	560,931	100	52.46

I. Significant increase in sales revenue (continued)

In 2004, sales revenue of the Company's steel products (billets) increased by Rmb2,883,230,000 as compared with last year, which was attributable to an increase in production volume and selling prices. During the year, the Company sold 2,293,400 tonnes of steel products (billets) including 28,600 tonnes of exported steel billets, representing an increase of 22.98% from last year. Its sales revenue increased by Rmb1,083,490,000. Besides, The average selling prices of steel products (billets) was Rmb3,509 per tonne, representing an increase of 26.68% from last year. Its sales revenue increased by Rmb1,799,600,000

Sales volume by products	2004 (0,000 tonnes)	2003 (0,000 tonnes)	Year-on-year increase (%)	Increase in revenue (Rmb0,000)
Steel plates	94.36	89.11	5.89	16,475
Steel sections	60.17	45.41	32.5	36,797
Wire rods	33.71	20.89	61.37	31,947
Steel billets	41.1	31.07	32.28	23,130
Total	229.34	186.48	22.98	108,349

Selling price by products	2004 (Rmb/tonne)	2003 (Rmb/tonne)	Year-on-year growth (%)	Increase in revenue (Rmb0,000)
Steel plates	4,019	3,138	28.08	83,131
Steel sections	3,171	2,493	27.20	40,795
Wire rods	3,074	2,492	23.34	19,619
Steel billets	3,192	2,306	38.42	36,415
Total	3,509	2,770	26.68	179,960

II. Heightened profitability

The Company's profit before taxation for the year 2004 decreased by Rmb95,625,000 to Rmb872,156,000, representing a decrease of 9.88% as compared with last year, of which:

1. Gross profit amounted to Rmb1,314,827,000, representing a decrease of Rmb72,879,000 as compared with last year.
 - (1) Sales volume of steel products (billets) increased by 428,600 tonnes from last year, resulting in an increase in gross profit by approximately Rmb296,100,000;
 - (2) The average selling price of steel products (billets) increased by Rmb739 per tonne as compared with last year, resulting in an increase in gross profit by approximately Rmb1,799,600,000;
 - (3) Production cost increased as a result of the increase in purchase prices of ore, coal, coking coal, pig iron, alloy and scrap steel together with the increase in electricity price, resulting in a decrease in gross profit by approximately Rmb2,168,720,000.
2. Other revenues amounted to Rmb23,161,000, representing an increase of Rmb10,467,000 as compared with last year.
3. Administrative expenses amounted to Rmb202,833,000, representing an increase of Rmb46,491,000 as compared with last year. This was mainly attributable to the increase in labour cost and the decrease in reversal of bad debt provision.
4. Distribution costs amounted to Rmb138,936,000, representing an increase of Rmb2,653,000 as compared with last year, which was mainly attributable to an increase in transportation costs resulting from an increase in sales volume.

II. Heightened profitability *(continued)*

5. Net finance costs amounted to Rmb82,761,000, representing an increase of Rmb15,605,080 as compared with last year. This was mainly attributed to an increase in interest expenses resulting from an increased bank loans.
6. Other operating expenses amounted to Rmb41,302,000, representing a decrease of Rmb31,536,000 as compared with last year, which was mainly attributed to no impairment provision to fixed assets was made during the year, whereas provision of Rmb31,499,000 for fixed assets impairment was made in last year.

III. Sound financial position

1. As of 31st December 2004, total assets of the Company amounted to Rmb7,200,834,000, representing an increase of 21.81% as compared with last year. The gearing ratio was 46.61%, up almost 1 percentage point over last year. Meanwhile, current assets amounted to Rmb3,119,760,000, representing a half of the total assets value and was 17.1% higher than current liabilities.
2. In 2004, net cash inflow from operating activities amounted to Rmb601,634,000. Due to series of technological renovations to expand production, the Company's bank balances and cash decreased by Rmb550,281,000. In 2004, the Company's investment in acquisition and construction of fixed assets amounted to Rmb1,021,539,000, mainly including renovation of coke furnace No.2, renovation and expansion of one burning plant, renovation of overhaul to blast furnace No.4, project 4 of converter furnace, expansion and renovation of medium plate plant, cool rolled sheet/strip project, etc.