

Chairman's Statement



I am pleased to present the annual report of the Company for the year ended 31st December 2000

RESULTS AND DIVIDENDS

In accordance with the accounting principles generally accepted in Hong Kong, the Group's consolidated turnover for the year ended 31st December 2000 was Rmb3,722,756,000, representing an increase of 32.14% compared to that of the previous year. Profit for the year amounted to Rmb206,375,000. Profit attributable to shareholders was Rmb198,686,000, and earnings per share amounted to Rmb19 cents.

The Company has not declared any interim dividend for 2000.

The Board of Directors proposed a final dividend of Rmb3 cents per share, amounting to Rmb31,918,320 for 2000. The final dividend will be distributed to the shareholders on or before 20th June 2001 after the proposed dividend is approved by the shareholders at the 2000 Annual General Meeting which will be held on 7th June 2001. Dividend for H shares will be paid in Hong Kong dollars and is translated into HK dollars at the average exchange rate of Renminbi to Hong Kong dollars as quoted by the People's Bank of China for the week before the date of the 2000 Annual General Meeting of the Company.

BUSINESS REVIEW

In 2000, the economic crisis in Southeast Asia lessened and there was a sign of recovery in the Asian economy. The global market of the steel industry has improved. The PRC government continues to implement aggressive fiscal policy and stable monetary policy in an endeavouring attempt to explore the domestic demands and consequently to stimulate the growth of the economy. The policies to further control the supply in the domestic steel industry halted the downward trends in the steel prices which had been persisted in the previous years, and as a consequence, there was an increase in the prices of certain steel products. However, major costs, such as electricity, imported iron ores and transportation costs had also increased, and the gross profit of the Group was affected.

Although the competition in the domestic steel market was still fierce, the Group has firmly grasped the opportunities of the rebounding prices of the steel products during the year. The Group has exerted its strengths and niche on its well established sales network, its competitiveness on cost control, its reputation on quality and its belief in applying technology to production process. During the year, through the strengthening of its sales network, management control, cost control and development of new products, the Group has significant achievements in operating efficiency and attained its expected profit target.



1. Strengthening the sales network and promotion of production development

During the year, as oriented by the market conditions, the Group continued to operate its business through the reinforcement of its sales force. Production schedules were determined based on its sales volumes and were adjusted on a timely basis. In comparison to 1999, except for the slight decrease in coking coal, there was an increase in the production of the major products of the Group, namely pig iron, steel and steel products by 6.47%, 10.2%, and 13.32% respectively. The Group has established 13 sales branches in order to rationalise and realign the sales network with particular focus on those regions with profit potentials. The sales network covers major regions over the country. Regional market information can be reacted directly by the sales branches. The Group has continued to focus on the development of both domestic and overseas markets through market monitoring media such as the internet and other massive exchange of information within the steel industry. The Group has also emphasised on after-sale services and has achieved remarkable return. The sales/production ratio for the year was 101.67%, representing an increase of 2.24% as compared with 1999. The collection rate of accounts receivable was 101%. The sales of steel billets for the year amounted to 1,569,200 tons of which 160,000 tons relate to export, representing an increase of 22.47% and 220% respectively as compared with 1999.

2. Improving the efficiency through cost-saving measures and exploring potential resources

With the objectives of reducing the costs, the Group implemented a tendering system on the purchase of raw materials, production facilities, spare parts and consumables. The Group has also optimised its transportation routes, thereby reducing the transportation costs and working capital requirements. These measures effectively enhanced the quality of the goods purchased, as well as controlled and reduced the costs.

The Group also reinforced the management of technical aspects, in particular to focus on those weak areas. Most of the technical and economic targets were met or improved steadily. Over 27 projects achieved historical high records. In comparison with the average level of the metallurgical industry in the PRC, iron and steel wastage decreased by 20kg per ton; the pass rate of steel billets exceeded 0.79% and the ageing of converter furnaces was over 5,330 furnace per cycle.

With the implementation of the systematic energy savings measures, the Group has effectively reduced, at varying degrees, the consumption of energies by each production processes. Whilst there was an increase in the production volume, the total energy consumption was decreased by 0.96% as compared with 1999, in particular, the aggregate energy consumption rate per ton was reduced by 10.34%.

3. Enhancing product quality

In 2000, the Group strictly complied with the "Quality Guidance Manual" and "Quality Control Procedural Manual" and strengthened its supervision and controls over the whole production process and deployed the measures to resolve the problems encountered in the course of the production. The Group also undertook and passed two inspection tests on the operations carried out by the Lloyd's Register Quality Accreditation ("LRQA"). There were 24 quality indices achieved or exceeded the historical records of the Group. Pass rates of coking coal, pig iron, steel and steel products were 100%, 100%, 99.79% and 99.46% respectively, representing an increase of 0.31%, nil, 0.14% and 0.11% respectively in comparison with those in 1999. Whilst the quality of the steel plates for shipbuilding were accredited by 9 countries, namely the PRC, the United States, the United Kingdom, Germany, Japan, Korea, France, Norway and Italy, the high pressure rolling plates for shipbuilding were also accredited by 6 countries, namely the United States, Germany, Norway, the United Kingdom, France and the PRC. Furthermore, the "E" Graded series of the new product for shipbuilding plates were also accredited by 4 countries, namely, the United Kingdom, France, Germany and Norway; a series of products of the spherical flat steel for shipbuilding were accredited by 6 countries, namely the PRC, the United Kingdom, the United States, France, Germany and Norway. In addition to the existing national quality accreditation obtained, the 20kg steel plates for boilers, 16MnR plates for vessels and plates for shipbuilding passed the quality inspection tests carried out by the State Iron and Steel Products Inspection Centre and were awarded "Golden Cup Award" which represented that their qualities have reached the internationally high standards.



4. Facilitating the technology advancement, aggressive development of new products and reinforcing technical modification.

During the year, the Group acquired the Iron and Steel Research Office from the Holding Company. This helped putting the know-how research system in order and enhanced the new mechanism of the technology innovation. Consequently, it was expected that the aggregate capability in exploring technological development would be reinforced. Under the principles of "persisting high value-added, micro alloyed and serial orientated product developments", the Group stabilised and optimised the quality of its existing products and expedited the exploration of new products. During the year, the Group successfully developed new products such as A36M, 09MnCuPTi, 15MnWNq, Q345-A/Cu steel plates, No. 37 spherical flat steel, No. 14 H shaped steel and No. 12.5 weatherproof angle steel. Production and sale of these products amounted to approximately 92,900 tons, representing an increase of 28.81%. As a result, satisfactory economic efficiency was attained.



In order to optimise the production know-how and increase its market competitiveness, the Group completed the construction of the high-speed steel cutter for wire rods with an annual production capacity of 350,000 tons. These production facilities were put into use in late August during the year. LF Furnace was also put into use in late October during the year, in order to improve the quality of steel products and to reinforce the production capacity of high value added steel products, as well as to further reduce the costs of production. The

Group undertook the construction work on No. 3 sintering machine improvement projects. In order to improve the quality of auxiliary materials, the Group undertook Da Bao Po Limestone Mine Project. The Group also undertook the Spherical Conglomerated Mine Project in August in order to improve the production technology standards and the configuration of the Blast Furnace. The above mentioned three projects are expected to be put into use in 2001.

FUTURE PROSPECTS

Year 2001 is the first year when the State implements its "Tenth Five-year Plan". The State will continue its focus on stimulating the domestic demands and will implement aggressive fiscal policy and stable monetary policy. Consequently, it is expected that the national economy will maintain at a steady growth trend. In the meantime, the metallurgy industry will continue to implement policies to control the supply of steel products. Together with the gradual implementation of the strategic development plan in the western region of the country and the PRC's imminent accession to WTO, there will be more opportunities open to the Group. However, there are still several uncertain factors surrounding such as the different extents of the increases in the cost of energies and raw materials, the current situation of over-supply in the international steel market, international trade protectionism and the impacts of the massive imported steel products to the PRC upon the PRC's accession to WTO, etc. These will further intensify the fierce competition in the domestic steel market.

Confronted both with the opportunities and challenges and facing the increasing uncertain factors, through its market oriented strategies, its efforts in analysing both domestic and international market demands and its thoughtful preparation for the PRC's accession to WTO, the Group will continue to optimise its product mix, encourage technological innovation, enhance its product quality and undertake measures in further reducing energy consumption and production costs. In conclusion, the Group will endeavour to materialise the production and operation targets of 2001.

On behalf of the Board of Directors, I hereby would like to express my gratitude to our shareholders for their support for the development of the Group and to the Supervisory Committee for its co-operation as well as to the staff for their dedication.

Tang Min Wei
Chairman

Chongqing, PRC
9th April 2001