Management Discussion and Analysis

RESULTS

During 2000, the measures implemented by the PRC government to explore domestic demands and to control the supply in the steel industry were effective and the Asian economy has been recovered, the prices of steel products in the PRC steel market increased. The Group had grasped the opportunities in an endeavouring attempt to promote sales, increase production, reduce energy consumption and production costs. As a result, the results of the Group has significant improvement. For the year ended 31st December 2000, the turnover of the Group was Rmb3,722,756,000, profit for the year amounted to Rmb206,375,000, and earnings per share amounted to Rmb19 cents.

1. Rebound in steel prices

The gloomy steel market and the persisting downward trends in the steel prices in the PRC in the past years have been alleviated as a result of the rebound in the prices of steel in 2000. The average steel price (billets) of the Group was Rmb2,126 per ton during the year, representing an increase of 8.88% on average when compared with 1999. Profit has been increased by approximately Rmb271,470,000. The average price of medium-gauge steel plates was Rmb2,305 per ton, the average price of steel sections was Rmb2,190 per ton, the average price of wire rods was Rmb1,939 per ton, the average price of rolled billets was Rmb2,007 per ton and the average price of steel billets was Rmb1,587 per ton, representing 14.73%, 6.83%, 7.13%, 4.04% and 0.89% increases as compared with 1999.

2. Increase in sales

In 2000, the Group grasped the opportunities and has exerted efforts to promote sales and to identify new customers through the reinforcement of its sales force. The Groups sold 1,569,200 tons of steel products (billets) during the year, representing a growth of 22.47% as compared with 1999 and profit was increased by approximately Rmb40,170,000. The sales of medium-gauge steel plates amounted to 274,400 tons, steel sections amounted to 692,200 tons, wire rods amounted to 129,400 tons, rolled billets amounted to 327,900 tons and steel billets amounted to145,300 tons, representing 11.21%, 14.97%, 15.54%, 56.37% and 48.57% increase as compared with that of 1999.

Due to the policy to control the supply of steel products implemented by the State, the total exports of steel products (billets) for the year amounted to 160,000 tons, representing an increase of 110,000 tons as compared to 1999. In order to promote sales, the Group has established 13 sales branches in the PRC during the second half of 1999. The sales volume increased significantly and the sales cost incurred during the year amounting to approximately Rmb111,349,000, representing an increase of approximately Rmb52,380,000 as compared with 1999.

3. Continuous cost reduction

The Group considers that cost control is the key to maintain its competitiveness and cost have been reduced continuously through the strengthening of internal controls. The production of pig iron, steel and steel products for the year has increased by 6.47%, 10.2% and 13.32% respectively. The fixed costs had been reduced by approximately Rmb31,690,000. The aggregate energy consumption rate per ton was 893 kg, representing a decrease of 10.34% as compared to 1999. Production costs had been reduced by approximately Rmb47,710,000. The purchase costs of iron ores, coal and alloy from abroad, after taking into the increase in prices of certain ancilliary materials and energies, had been reduced by approximately Rmb45,030,000. This was mainly due to the implementation of a tendering system on purchases, optimization of its transportation routes and increase in cash discounts.

Total repair costs during the year increased to approximately Rmb207,440,000, representing an increase of approximately Rmb62,840,000 as compared to 1999. Provisions for diminution in the value of inventories during the year amounted to approximately Rmb27,200,000, representing an increase of approximately Rmb21,524,000 as compared with 1999. The total amount of wages increased by approximately Rmb25,800,000.

The Group's administrative expenses have been increased by approximately Rmb113,931,000 as a result of the increase in wage surcharges and provisions for bad debts, representing an increase of approximately Rmb20,763,000 when compared with 1999. Other administrative expenses decreased at varying degrees.

Due to increase in bank loans and the completion of certain fixed assets which were financed by loans, the net finance cost for 2000 amounted to approximately Rmb55,812,000, representing an increase of Rmb8,284,000 as compared with 1999.

The Group discontinued the operations of 2 sets of 10-ton oxygen converter furnace on 27th May 1999. The provision for impairment of these machinery and equipment amounting to approximately Rmb16,711,000 had been charged to the profit and loss account in 1999. In 2000 the demolition of "黃血岩 has resulted in a loss of approximately Rmb6,800,000. This explains the decrease in other operating expenses by approximately Rmb8,701,000 when compared with 1999.

FINANCIAL STATUS

The Group further strengthened cash management and managed to collect a higher level of its receivables, maintaining healthy cash flows and sound financial position. As at 31st December 2000, the Group's gearing ratio (Total liabilities (excluding minority interests)/ Total assets X 100%) was 51.18%, representing a decline of 4.4% as compared with 1999, and its liquidity ratio (Current assets / Current liabilities x 100%) was 105.57%.

1. The Group's bank balances and cash as at 31st December 2000 was Rmb332,289,000, representing an increase of Rmb215,954,000 compared with that of 1999. All deposits were placed with state commercial banks. There were no designated deposits. As at 31st December 2000, all the proceeds from the issue of new shares had been used up.

2. The Group's loans at 31st December 2000 amounted to Rmb987,200,000, representing a net increase of Rmb12,120,000 when compared with 1999. The net increase was due to new loans of Rmb556,630,000 to finance the technology upgrade projects and working capital, and the repayment of bank loans of Rmb543,510,000.

3. The carrying amount of inventories of the Group at 31st December 2000 was Rmb664,821,000, representing a decrease of Rmb322,614,000. The decrease was due to the promotion of the sale of slow-moving inventories, resulting in the decline in the levels of finished goods by Rmb197,142,000, work in progress by Rmb45,176,000, raw materials, spare parts and consumables by Rmb80,296,000.

4. As at 31st December 2000, the trade and other receivables of the Group amounted to Rmb587,155,000, representing a net increase of Rmb28,282,000 as compared with 1999. The net increase was mainly due to the increase in prepayments for the purchase of raw materials and spare parts by Rmb56,097,000, and the decrease in trade receivables from third parties by Rmb23,693,000. With regard to the credit policy of the Group, customers are normally required to make advanced payments before deliveries are made. Trade receivables are normally settled by bank acceptance and the offsetting of payable balances.

5. The Group's capital expenditure in 2000 amounted to approximately Rmb241,634,000, including approximately Rmb137,310,000 on high speed steel cutter for wire rods, approximately Rmb14,670,000 on the LF Furnace, approximately Rmb14,020,000 on Spherical Furnace, approximately Rmb10,840,000 on the replacement of electrical blower, approximately Rmb9,830,000 on Da Bao Po Limestone Mine. During the year, the projects of high speed steel cutter for wire rods, LF Furnace, the replacement of electrical blower had been completed and approximately Rmb330,852,000 had been reclassified as fixed assets. As at 31 December 2000, the projects of Spherical Furnace, Da Bao Po Limestone Mine, modifications of continuous casting machine and blast furnace coal blower, all of which were still in progress, amounted to approximately Rmb166,732,000.