Management Discussion and Analysis

The development of iron and steel industry was triggered by the continuous growth of the economy of the PRC in 2000. Increase in profit of the Company for the year is mainly attributable to growth of sales of products, increased prices and sales income. In addition, by strengthening management and economies of scale, overheads and costs decreased. However, expenditure increased in respect of housing subsidies for the staff and the pension benefit obligations payable to early retired staff affected profit growth. Further, increase in provision for accounts receivable and construction in progress also affected profit growth. Details of the housing subsidies for the staff and the pension benefit obligations payable to early retired staff and the further increase in provision for accounts receivable and construction in progress are set out in Significant Matters Notes V point 32 to the financial statements prepared under the PRC accounting standards.

Increase in sales income of the Group in 2000, especially for which cash income reached 92.3%, led to increase in cash inflow. On the other land, decrease of use of capital on inventories led to quicker revolving capital. Net cashflow arising from operating activities increased by RMB390 million from the beginning of the period. Certain bank loans were repaid on time or at an earlier date. When compared with the beginning of the period, short term loan decreased by RMB150 million and long term loan decreased by RMB322 million. The capital structure of the Group mainly includes share capital and capital from bank loans. The loan capital is mainly Renmimbi and certain US dollars. All loans bore fixed rate stated by the State. In order to support the operation of the Company, the Group adopted steady financial policy to control financial and operating risks. Sales are on cash-received-before-delivery basis. Scale of loan is controlled and gearing ratio is within a reasonable level.

The Group is committed to product market expansion. While the Group continued to maintain the market share of its traditional products, it also paid attention to the promotion and development of new products. The Group's H-shaped beams are the product for the replacement of imported products of its kind in the PRC and have a huge potential market. In 2000, the production volume and sales of H-shaped beams totalled 300,000 tonnes, of which approximately 45% were for export and the balance was for local sale mainly for the focused projects of the State which include bridge, road, construction, power station and exploration of sea petroleum. In 2000, the Group developed 220,000 tonnes of new products which are mainly urgently needed by the market. These products are generally of higher technical quality and raised the market competitiveness of products of the Company.

The Group focuses on technological and equipment renovation. In 2000, the capital investment of the Group was mainly to increase production volume and quality, save energy and use resources integratedly. The financial expenditure of the investment is set out in Notes V point 10 to the financial statements prepared under the PRC accounting standards. The commencement of operation of these projects will enhance the synergy of the production and operation. The relevant economic indicators improved significantly. It is expected that these projects will have greater effectiveness in 2001.

The composition and qualification of the staff of the Company are set out in the paragraph under "Staff of the Company". The emolument of the staff is paid with reference to their performance. A multi-level assessment system was set up for determination of their emoluments. The management of the Company is adopted an annual salary system. Middle management had its annual salary determined at the end of the year in connection with their responsibility and performance standards. The Group has not carried out its share option scheme which is still under discussion.

The Group expected a massive reform on the iron and steel industry of the PRC. In view of this, the Group must fade backward technology as soon as possible and make technological renovation energetically. The Group will also increase product competitiveness to cope with the economic globalisation after the PRC's entry into World Trade Organisation. Accordingly, the Group will step up its technological renovation. In 2000, the Group started to implement projects including No.1 steel-making plant electric arc furnace, billet continuous casting machines, modification of train wheel rolling system and coke dry quenching project. It was described in the section "Business Development Plan for 2001" under "Report of the Directors". It is estimated that capital expenditure in 2001 will amount to RMB1 billion which mainly came from internal generated fund of the Company and approximately 30% bank loans. The Group is formulating Tenth Five-year Plan, in which some projects are being made a feasibility research. If these projects are permitted to be implemented, the assets, debt structure and cashflow of the Company will have changes.

For the year ended of 2000, the Group had low operating risks and better quality of assets. Gearing ratio of the Group was 29.5% (total liabilities/total assets). The assets of the Group had not been pledged to any creditors. The Group did not have any material contingent liabilities.