

Management Discussion and Analysis

管理層討論與分析

Review of Results

The turnover of the Group for the year was approximately RMB1,046,482,000, representing an decrease of approximately 1.0% compared with approximately RMB1,056,629,000 for the last year while the net profit attributable to shareholders was approximately RMB12,042,000, representing an increase of approximately 38 times compared with approximately RMB308,000 for the last year.

Business Review

Following the prices of steel products have dropped significantly in the second half of 2005, the national economy of the PRC is basically achieving a balance in the first half of 2006. Prices of steel products for first quarter of 2006 continued the trend from the end of last year which remained at a low level, and starting from March 2006, as a result of increase in total demand, the prices of steel products started to rise again and maintain a rapid yet stable growth. However, the overall steel product prices during the year were still substantially lower than those for the last year. Sales volume of steel products slightly decreased 1.4% from approximately 139,000 tonnes for the last year to approximately 137,000 tonnes. As a result of the overall increase in prices of steel products, the selling price and the gross margin of the Group's steel products turnaround and increased by approximately 9.6% and 3.3% compared with that for the last year, .

Production and Sales

The revenue from domestic sales of steel products in the PRC during the year was approximately RMB96,532,000, representing an decrease of approximately 19.6% compared with approximately RMB120,095,000 last year.

The revenue from indirect export sales of steel products in the PRC during the year was approximately RMB815,917,000, representing an decrease of approximately 12.1% compared with approximately RMB928,512,000 for the last year. The market for indirect export sales in the PRC continued to be the core market for the Group.

The revenue from direct export sales of steel products outside the PRC during the year was approximately RMB24,050,000 while it was approximately RMB8,602,000 for the last year. The Group will continue to develop and maintain a good momentum of the international market, especially the stainless steel pipes product which has been exported to countries such as the U.S. and Vietnam.

Gross Profit

The Group recorded a gross profit of approximately RMB75,349,000 for the year, with a gross profit margin of approximately 7.2%, compared with the gross profit of approximately RMB41,067,000 and a gross profit margin of approximately 3.9% for the last year. This was mainly attributable to the higher average selling prices of our products as compared to that of last year. .

業績回顧

本集團於本年度的營業額約為1,046,482,000元人民幣，較去年的1,056,629,000元人民幣下降約1.0%，股東應佔純利為12,042,000元人民幣，較去年的308,000元人民幣上升約38倍。

業務回顧

隨著二零零五年下半年鋼材價格大幅下跌，中國國民經濟於二零零六年上半年已基本恢復平衡。二零零六年首季度之鋼材價格承接去年勢頭，維持在低水平，並自二零零六年三月起，在總需求上升帶動下，鋼材價格再度開始上揚，並維持強勁但穩定增幅。然而，年內鋼材整體價格相較去年仍屬甚低。鋼材銷售額較去年約139,000噸輕微下降1.4%至約137,000噸。由於鋼材之整體價格上升，本集團的鋼材售價毛利率與去年相比好轉，分別上升約9.6%及3.3%。

生產及銷售

本年度國內鋼材的內銷收入約為96,532,000元人民幣，比去年約120,095,000元人民幣下降約19.6%。

本年度中國間接出口銷售鋼材的收入約為815,917,000元人民幣，比去年約928,512,000元人民幣有約12.1%的下降。國內的間接出口銷售市場仍然是本集團的核心市場。

本年度國外直接出口銷售鋼材的收入為24,050,000元人民幣，去年則約為8,602,000元人民幣。本集團將持續發展及保持勢頭全面開拓國際市場，尤其是不銹鋼鋼管產品，現已出口到美國、越南等國家。

毛利

本集團於本年度錄得毛利約為75,349,000元人民幣，毛利率約7.2%，去年毛利則約為41,067,000元人民幣，毛利率約3.9%。毛利上升的原因，主要由於公司鋼材平均銷售價格較去年為高。

Management Discussion and Analysis

管理層討論與分析

Operating Expenses

The total operating expenses of the Group for the year were approximately RMB62,407,000, of which approximately RMB18,356,000 in selling and distribution costs, RMB35,058,000 in administrative expenses, RMB8,993,000 in other operating expenses and RMB20,661,000 in finance costs, accounting for approximately 7.8%, 3.4%, 0.9% and 2.0% of turnover respectively while the amounts for the last year were approximately RMB9,853,000, RMB30,558,000, RMB2,986,000 and RMB14,372,000 respectively, accounting for approximately 0.9%, 2.9%, 0.3% and 1.4% respectively.

Financial Resources and Treasury Policies

The Group continues to adhere to prudent treasury policies. The gearing ratio (borrowings divided by shareholders' funds) as of 31 December 2006 was approximately 141.9% (2005: 198.6%). The total bank borrowings of the Group amounted to approximately RMB374,603,000 (2005: RMB427,511,000), mainly denominated in US dollars, HK dollars, Renminbi and new Taiwan dollars with floating interest rates. The Group's short term loans from banks accounted for approximately 37.9% of the total assets (2005: 43.4%).

The current ratio (current assets divided by current liabilities) as of 31 December 2006 was approximately 1.32 (2005: 1.21). The Group continued to insure against receivables in order to lower the risks of credit sales and to ensure that funds would be recovered on a timely basis, hence fulfilling the requirements for debt repayments and working capital commitments.

Cash Flow

Net cash outflow of approximately RMB19,273,000 was from operating activities for the year, mainly resulted from the increase of trade receivables level of the Group. Net cash outflow of approximately RMB42,198,000 used for plant expansion and purchase of machinery and equipment and RMB4,000,000 dividend paid. Approximately RMB52,908,000 repayment of bank borrowings and approximately RMB40,000,000 raised from new shares subscription on 20 December 2006, the net increase in cash and cash equivalents amounted to approximately RMB20,102,000. Bank balances and cash as at 31 December 2006 amounted approximately RMB45,689,000, mainly denominated in US dollars, HK dollars, Renminbi and new Taiwan dollars.

Exchange Rate Exposures

As most of the Group's monetary assets and liabilities are denominated in US dollars, HK dollars, Renminbi and new Taiwan dollars and those currencies remained relatively stable during the year, the Group was not exposed to any significant exchange risk. Meanwhile, the Group is also studying and implementing various measures in relation to reducing any exchange impact from the revalued of Renminbi against the US dollars.

營業費用

本集團本年度的營業費用總額為約62,407,000元人民幣，其中分銷成本約18,356,000元人民幣，行政開支為35,058,000元人民幣，其他經營開支為8,993,000元人民幣，財務費用為20,661,000元人民幣，佔銷售收入的比重分別為：7.8%、3.4%、0.9%及2.0%。去年金額分別為9,853,000元人民幣、30,558,000元人民幣、2,986,000元人民幣及14,372,000元人民幣，比重分別為：0.9%、2.9%、0.3%及1.4%。

財務資源及理財政策

本集團一直秉承審慎的理財政策。於二零零六年十二月三十一日之資本負債率（借貸除以股東資金）約為141.9%（二零零五年：198.6%）。本集團之借貸總額約為374,603,000元人民幣（二零零五年：427,511,000元人民幣），主要以美元、港元、人民幣及新台幣為單位並按浮動利率計息。本集團從銀行獲得的短期借款佔資產總額的比重約為37.9%（二零零五年：43.4%）。

於二零零六年十二月三十一日之流動比率（流動資產除以流動負債）為1.32（二零零五年：1.21）。本集團繼續對應收賬款進行投保，以降低除銷的風險，也確保資金的及時回收，從而保證對償還負債及承擔營運資金的需要。

流動現金

在本集團貿易應收帳款水平增加的情況下，於本年度經營業務所使用之現金流出淨額約為19,273,000元人民幣。約42,198,000元人民幣用作廠房擴充及購買機器設備，及4,000,000元人民幣用作派發股息。本年度償還約52,908,000元人民幣之銀行借款，並於二零零六年十二月二十日透過認購新股籌得約40,000,000元人民幣之款項，現金及等同現金項目流出淨額約為20,102,000元人民幣。於二零零六年十二月三十一日的現金及等同現金項目為45,689,000元人民幣，主要以美元、港元、人民幣及新台幣為單位。

匯率波動風險

本集團大部份貨幣資產及負債均以美元、港元、人民幣及新台幣計算，而該等貨幣於年內相對穩定，故本集團並無重大匯兌風險。同時，本集團正在為人民幣兌美元及新台幣之升值，研究落實各項措施以減少任何匯兌影響。

Management Discussion and Analysis

管理層討論與分析

Pledge of Assets

As at 31 December 2006, property, plant and equipment and interest in leasehold land held for own use under an operating lease of the Group with aggregate net book value of approximately RMB162,329,000 and bank deposits of approximately RMB8,652,000 respectively were pledged to secure bank borrowings.

Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date (2005: Nil). At 31 December 2006, the Company had provided corporate guarantees of approximately RMB47,017,000 (2005: RMB145,263,000) in favour of a bank for banking facilities granted to a subsidiary. These banking facilities had been utilised to the extent of approximately RMB44,961,000 at the balance sheet date (2005: RMB 96,985,000).

Employment, Training and Development

As at 31 December 2006, the Group had a total of 500 employees. Total staff costs for the year ended 31 December 2006 were approximately RMB21,917,000, including retirement benefits cost of approximately RMB2,286,000. Remuneration packages of the Group are maintained at a competitive level to attract, retain and motivate employees and are reviewed on a periodic basis.

The Group always maintains good relation with its employees and is committed to employee training and development on a regular basis to maintain the quality of our products.

In addition, the Company has a share option scheme for the purpose of providing incentives and rewards to eligible participants. No option has been granted under the scheme since its adoption.

Outlook

Under the macro-economic control policy, the growth rate will slow down in 2007. According to the "Strategy on the Development of the Steel Industry" promulgated by the State, the development of the steel industry will be directed towards controlled volume, technology upgrade, industrial layout and product mix adjustment, so as to combine the impact of an increase in new capacity with the phasing out of backward capacity. Following the technology upgrade and improvement of our plants and the new installation of steel-cutting and pipe-making machines, the Group's future production capacity and market competitiveness would be enhanced to meet the steady but moderately fast growth of the national economy of the PRC and the Asian market. Moreover, the Group's stainless pipes product has been successfully launched to the domestic market in the PRC as well as the international market, and has duly obtained the Hygiene Permit for Stainless Steel Pipes from the Guangdong Province Health Bureau, which would significantly help to promote the Group's new products in those markets.

Looking forward to 2007, the imbalance between demand and supply in the steel sector will continue and the steel market will still remain at a relatively unstable level. The Group's management is confident that the Group will fully capitalize its extensive experience in cost management and achieve greater cost effectiveness, increased output of high value-added products and welcome to every investment opportunity which are beneficial to the Group, with an aim to generate the best return from investments and generate the best returns to our investors.

資產抵押

於二零零六年十二月三十一日，本集團的物業、廠房及設備及持有租賃土地作自用之經營租賃權益分別約有總賬面淨值162,329,000元人民幣及銀行存款約8,652,000元人民幣作為本集團銀行借款之抵押。

或然負債

本集團於結算日並無任何重大或然負債（二零零五年：無）。於二零零六年十二月三十一日，本公司就一間附屬公司獲授銀行信貸而向若干銀行提供公司擔保約47,017,000元人民幣（二零零五年：145,263,000元人民幣），於結算日，該等銀行借貸已動用約44,961,000元人民幣（二零零五年：96,985,000元人民幣）。

僱用、培訓及發展

於二零零六年十二月三十一日，本集團共有500名僱員。於截至二零零六年十二月三十一日止年度的總員工成本約為21,917,000元人民幣，包括退休福利成本約2,286,000元人民幣。本集團的薪酬待遇維持在有競爭力的水平以吸引、挽留及激勵僱員，並會定期作出檢討。

本集團一向與僱員維持良好關係，並定期向僱員提供培訓及發展，維持產品質素。

此外，本公司設有購股權計劃，向合資格參與者提供激勵及獎勵。自採納以來，概無根據該計劃授出購股權。

展望

在國家宏觀調控政策的影響下，二零零七年增速將會放慢，根據國家頒佈的《鋼鐵產業發展政策》，鋼鐵產業發展將向控制總量增長，推動技術升級和產業佈局、產品結構調整轉變，新增生產能力將與淘汰落後生產能力相結合。隨著技術提升及廠房改良及新增裁剪、製管生產線，進一步提高未來的產能和市場競爭力，來應付穩步快速增長之中國國民經濟及亞洲市場。同時，本集團的不銹鋼管產品已經成功進入國內、國際市場，且已正式取得廣東省衛生廳頒發的「不銹鋼管衛生許可證」，對推動集團新產品的市場開拓有極大的幫助。

展望二零零七年，鋼鐵產業之供求不平衡將持續，而鋼鐵市場亦將維持在相對不穩定水平。本集團管理層有信心本集團將充份利用多年積累的成本管理經驗，增加高附加值產品產量及對任何有利於本集團的投資機會持開放態度，以爭取更佳投資回報及給予我們的投資者最佳的報酬。