REVIEW OF OPERATIONS AND PROSPECTS

REVIEW OF OPERATIONS FOR THE FIRST HALF OF THE YEAR

The Group recorded sales of Rmb1,814,817,000 and profit of Rmb82,738,000 for the six months ended 30 June 2002.

COMPLETION OF EQUIPMENT MAINTENANCE AND MAINTAINING STABLE PRODUCTION

In January 2002, the Group conducted an overhaul to its major production equipment. In February, production resumed and production of iron and steel was to a certain extent affected. Production restored to normal in March, and since then, productivity of the Group gradually increased in the following months. In May, the monthly production of the Steel Melting Factory and Medium-gauge Factory reached historical high records. Meanwhile, due to the effective utilization of the coal blower project by the Group, the demand for coking coal decreased and the production scale of coking coal was moderately controlled by the Group. For the period from January to June, the Group produced 474,900 tonnes of coking coal, 773,700 tonnes of pig iron, 854,000 tonnes of steel and 801,200 tonnes of steel products. The outputs of coking coal, pig iron and steel decreased by 11.47%, 5.12% and 1.05% respectively as compared with the same period of last year, while steel products increased by 1.71% as compared with the same period of last year.

ADJUSTING MARKETING STRATEGIES AND ACTIVE EXPANSION OF SALES VOLUME

During the first half of the year, the Group adopted the marketing strategies of increasing the market share of neighboring areas and developing markets for different industries to expand sales volume. On the one hand, the Group has strengthened its sales in Chongqing and its surrounding areas. As a result, the Group's sales in Sichuan, Chongqing, Yunnan and Guizhou accounted for 57% of the total sales volume, representing an increase of 2% over the same period of last year. On the other hand, the Group actively produced steel products for fast growing industries in the PRC like automobile manufacturing, shipbuilding, mining and infrastructure businesses. The sales volume of the Group's steel plates for vehicle tyre, vehicle Ren-shape plate, ship wreck, mining and bridge frame have increased by 23.64%, 39.38%, 6.01%, 55.75% and 516.96% respectively over the same period of last year. From January to June, the Group sold a total of 786,600 tonnes of steel products which represented an increase of 4.08% over the same period of last year.

IMPLEMENTATION OF TECHNOLOGICAL MODIFICATION AND REDUCTION IN ENERGY CONSUMPTION AND COST

During the first half of the year, three technological modification projects, namely the Group's 3# and 4# blast furnace purified recycled water project, 1# moulding machine production capacity expansion project and high-speed wire rods plant warehouse extension project, have been put into operation. On the basis of utilizing the functions of the above technological modification projects, the Group has reinforced its energy management and adopted various measures on energy saving. As a result, the ratio of blast-furnace composite coking and the aggregate energy consumption rate of steel for the first half of the year have decreased by 26 kg per tonne and 53 kg standard coal per tonne respectively as compared with the same period of last year.

ADJUSTING PRODUCT MIX AND DEVELOPING NEW PRODUCTS

In line with strategies in marketing and developing new markets, the Group has strengthened the development of new products. Seven new products were developed during the first half of the year and 81,300 tonnes were produced under trial production.

PROSPECTS

In the second half of the year, the State will continue the policy of stimulating domestic demand and implement proactive fiscal policies to maintain the growth of national economy. This will help to boost the demand for iron and steel products. The State Economic and Trade Commission announced in May some temporary protection measures on restricting the export of nine major categories of iron and steel products to the domestic market by foreign iron and steel manufacturers. This will help reduce the adverse impact of international iron and steel products on the domestic market. The Group will actively leverage on its niche, both domestically and internationally, to reinforce the domestic-oriented market and to strive for new markets. At the same time, the Group will fully motivate the initiatives of its employees, strengthen internal management, refine technological skills, adjust product mix, reduce production costs, fully utilize productivity and realize the profit target.