

REVIEW OF OPERATIONS AND PROSPECTS

REVIEW OF RESULTS

In the first half of the year, since most parts of China were hit by SARS, various sectors of the Company such as the procurement of raw materials, production and product sales had been under tremendous pressure. However, there has been no substantial adverse impact on the Company. The results of the Company have been improved continually by leveraging on the growing demand for the production of steel products for infrastructure construction, investment in fixed assets and rapid growth of foreign trade, as well as on the increased production for boosting sales as a result of the relatively high prices of steel products. The Company also strived to open up ways of financing, carry out technological renovation, optimize production techniques, adjust product mix and expand production scale in order to increase the competitiveness of its products on the market and maintain its profitability. For the period ended 30 June 2003, the Company sold 918,600 tonnes of steel products and achieved a sales revenue of Rmb2,610,018,000 and a profit of Rmb399,913,000, representing an increase of 17.29%, 43.82% and 383.35% respectively over the same period of last year.

ENSURING SUPPLY OF RAW MATERIALS AND STABLE GROWTH IN PRODUCTION

The 67-day suspended navigation in the Three Gorges during the first half of the year has caused tremendous difficulties to the Company's transportation of iron and ores. As a result, the Company has taken into full consideration the adverse effect of the suspended navigation on the supply of raw materials by planning in advance and strengthening the communication and coordination with the railway transport department to arrange efficient means of transportation to ensure normal production operations. As a result, growth in production was achieved in the first half of the year. In the first half of the year, 499,500 tonnes of coking coal, 877,600 tonnes of pig iron, 983,600 tonnes of steel and 920,100 tonnes of steel products (including 5,600 tonnes of products for the Company's own purposes) were produced, representing an increase of 5.18%, 13.43%, 15.18% and 14.84% respectively over the same period of last year.

REVIEW OF OPERATIONS AND PROSPECTS (CONTINUED)

STABLE ENHANCEMENT OF PRODUCT QUALITY AND ACTIVE DEVELOPMENT OF NEW PRODUCTS

In the first half of the year, product quality was enhanced by strengthening the quality monitoring of purchase of raw materials and by the stringently appraisal system of quality benchmark. From January to June, loss from wasted products in the sectors of steel smelting and rolling of soft steel decreased by 0.04% and 0.25% respectively over the same period of last year. Claim from customers as a result of poor product quality decreased by 58.24% over the same period of last year. The Company also seized market opportunities by expanding the production of new and specialized products and by devoting itself to the development of rod products. In the first half of the year, the Company was able to develop a brand new product and carry out the trial production of $\varnothing 16\sim\varnothing 36$ mm second and third grade spiral-grained steel as well as 45# steel $\varnothing 25$ mm, $\varnothing 28$ mm round steel. The trial production volume of new and specialized products amounted to 133,000 tonnes, representing an increase of 64% over the same period of last year.

OPTIMIZING PRODUCT MIX AND IMPLEMENTING TECHNOLOGICAL RENOVATION

In the first half of the year, the Company has completed a technological renovation project, i.e. the construction of a warehouse for steel rod finished goods and the renovation thereof. Various projects including the overhaul to the 620m³ blast furnace and converter furnace upper and lower composite blowing equipment are under construction and installation. The Company's cold rolling production line is at its infant stage of operation. Furthermore, in addressing the strong demand of the domestic market for medium-gauge steel plates in future, the Company planned to invest Rmb183,780,000 in expanding the capacity of the medium-gauge steel plant to expand the width from the current 2.2 metres to 2.4 metres and to increase the capacity from the current 800,000 tonnes to 1,100,000 tonnes. In addition, the Company planned to invest Rmb40,000,000 in expanding continuous casting machine No. 5 for steel plate slabs to increase the output of small steel plate slabs; Rmb 17,350,000 in expanding the LF Furnace No. 2 and the on-line multi-functional refining treatment station to meet the requirements of steel smelters for the production of different types of steel; and Rmb33,090,000 in expanding electrical blower No. 3 to meet the production requirements of blast furnaces No. 3 and No. 4 for iron smelting to increase the smelting capacity of the blast furnaces and make use of coefficients. These projects have been or are ready to be kicked off.

REVIEW OF OPERATIONS AND PROSPECTS (CONTINUED)

ENHANCING OPERATIONAL EFFICIENCY AND STRENGTHENING CORPORATE GOVERNANCE STRUCTURE

The Company has been increasing its operating results, strengthening its corporate governance structure and enhanced its operational efficiency to build a good image in the market. In the first half of the year, an audit office was established to strengthen the internal audit of the Company. By election of new members to the Board of Directors of the Company for a new term of office, the membership of the Board of Directors directorship has been optimised and decision-making capabilities of the Board of Directors enhanced. Relevant rules and regulations have been formulated for improving corporate governance structure.

INCREASING STAFF QUALITY BY STRENGTHENING THEIR SKILL TRAINING

The Company considers that human resources are the inexhaustible sources for corporate development and efficiency enhancement. It has been focusing on staff training in order to strengthen their skills and hence improve the quality of the staff. In the first half of the year, the Company focused on carrying out vocational qualification training. 3,500 training sessions were conducted, representing 30.28% of the staff having been trained so that the quality of their skill has been enhanced in line with the development of the Company's operations.

PROSPECTS

In the second half of the year, with the elimination of effects of SARS in some parts of China, the national economy will begin to recover gradually and the growth of national economy maintain at a relatively high level in the remaining months of the year. The Company will still take advantage of the favourable condition of the demand for steel products due to increase in infrastructure construction, fixed asset investment and the growth in the mechanical and electronic manufacturing and automobile industries by enhancing product quality, unlocking potential and increasing production and improving operating performances. In the second half of the year, the Company plans to carry out work in the following areas:

REVIEW OF OPERATIONS AND PROSPECTS (CONTINUED)

PROSPECTS (CONTINUED)

- To make full use of the potential of existing equipment for increasing production and efficiency
- To strengthen the management of quality in each work procedure for enhancing product quality
- To carry out technological renovation for raising various economic and technological benchmarks
- To implement technological renovation projects for expanding production scale and adjusting technical structure