BUSINESS REVIEW

During the first half of 2005, steel prices started to fall due to the oversupply of products in market with the expanding domestic steel production capacity. Meanwhile, the increased prices of iron ore and coking coal resulted in both escalating cost and shrinking profitability of steel production. Adhering to its production scheduling tactics of "Fully exploring potential to maximise efficiency and output", the Company further improved internal management. Leveraging technology improvement, the Company also optimized resource structure and made timely adjustments to marketing strategy to proactively started the activities of "Retrench year", aiming at energy saving and reductions in consumables and product cost. Therefore, the Company accomplished a steady progress in production and operation with goals achieved as planned. During the reporting period, the Company recorded sales revenue of RMB4,705,291,000 and profit before tax of RMB462,216,000, a year-on-year increase of 9.7% and decrease of 13.83% respectively.

1. SCHEDULING WELL-ORGANIZED PRODUCTION TO FULLY EXPLORE PRODUCTION CAPACITY

   At the beginning of this year, the surging price of iron ore overseas led to a corresponding rise in the PRC, worsened by the shortage of coal. By timely adjusting procurement strategies and further optimizing resource structure, the Company strived to tackle difficulties in procurement and ensured the supply of raw materials and fuels for production. Focusing on steel and iron smelting in production process, the Company beefed up its management on production and organization and ensured production safety of workflows, keeping the output of major products with the pace of annual plan. With desirable results of over 50% targets accomplished for the first half of year, the Company produced 561,000 tonnes of coking coal, 1,095,000 tonnes of pig iron, 1,280,900 tonnes of steel and 1,293,600 tonnes of steel products (billets).

BUSINESS REVIEW *(CONTINUED)*

2. IMPROVING MARKET INFORMATION SYSTEM AND STRENGTHENING MARKETING

   Keeping a close eye on the changing steel and iron market and earnestly carrying out marketing research, the Company took full use of its regional market information feedback system based on sales branches, and made timely adjustment to marketing strategies and measures to get accurate estimation of market demand and price dynamics. With efforts in establishing strategic customer base, the Company restructured its products to capitalise on favourable opportunities for better benefits. During the first half of 2005, the Company sold 1,168,700 tonnes of steel products (billets) with the production; the average steel products (billets) selling prices amounted to RMB3,811 per tonne and the collection rate of accounts receivable reached 102.69%, increased by 9.95% and 5.54% over the same period last year respectively.

3. ENDEAVOURE TO SAVE ENERGY AND MATERIALS CONSUMPTION WHILE IMPROVING TECHNICAL AND ECONOMIC INDICATORS

   During the first half of the year, the Company made an all-out effort in deploying tasks of "Tapping potentials in specific targets and lower costs with higher efficiencies". Among the 45 comparable technical and economic indicators, 32 or 71.1% of them recorded breakthrough in historical standards; while 40 or 88.89% of them shown noticeable year-on-year improvement. Among them, the comprehensive utilization rate of blast furnace recorded a year-on-year increase of 15.14%, while the furnace life of converter furnace recorded an increase of 6,918 units as compared with the corresponding period last year. The aggregate energy consumption per tonne of steel recorded a decrease of 3.88% as compared with the same period last year.

BUSINESS REVIEW *(CONTINUED)*

4. IMPROVING PRODUCT QUALITY TO SECURE MARKET REPUTATION

Strengthening quality control on the whole process from receipt of raw materials to product output in the first half year, the Company further improved its quality management system with a focus on supervision over key products and processes. For the 47 quality indicators established at the beginning of this year, the Company recorded a plan-completion ratio of 100% and a target-completion rate of 95.74%, up 5.00% and 15.74% respectively over the same period last year. The qualification rate of steel products amounted to 99.68%, a year-on-year rise of 0.12%. Customers' claim against poor quality read a year-on-year decline of 4.42%.

5. ACTIVELY DEVELOPING NEW PRODUCTS TO CATER FOR THE MARKET NEEDS

The Company restructured its product mix to launch profitable products with a market-oriented view. During the first half of 2005, the Company rolled out 80-high-carbon steel bundled bars and 65Mn spring steel rebar coils. The pilot production volume of new and specialized products amounted to 188,000 tonnes.

6. LEVERAGING TECHNOLOGICAL IMPROVEMENT TO ADVANCE TECHNOLOGICAL RENOVATIONS

During the first half year, the Company completed the 240 m^2 sintering machine projects and expanded production capacity of sintering ore, laying a foundation for increasing iron smelting capacity. The projects including 1,350 m^3 blast furnace, overhaul and renovation of coke furnace No.1 and 12,000KW power generating units are in smooth progress as scheduled.

PROSPECTS

With the effects of the PRC's macroeconomic control and gradual on-streaming of projects under construction, the second half of 2005 is expected to see a steady growth in domestic steel production. However, there remains a challenge from the declining steel product prices, especially the obvious oversupply of steel products for construction. As such, the Company will taking full use of market changes, keep a close eye on specialized market demand, continuously to explore right path of sales, high valued added by-products, expand market share of profitable products and stick to its production scheduling tactics as planned to secure output for a maximum utilisation of production capacity. Meanwhile, procurement management will be further reinforced for quality enhancement of raw and auxiliary materials as well as the reduction in procurement cost. The Company will put efforts in energy saving and consumption reduction to cut down workflow costs. The Company expects to stabilise and refine its product quality. The Company is committed to technological renovations to achieve the production and operating target for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2005, the Company had leverage the opportunity of great demand for domestic steel and achieved the expected target through adjustment of structure, cultivation of potential and expanding production, saving energy and lowering consumption and strengthening of management. For the six months ended 30th June 2005, the Company's turnover amounted to RMB4,705,291,000, representing an increase of 9.7% as compared with the same period of last year. Profit before taxation amounted to RMB462,216,000, representing a decrease of 13.83% as compared with the same period of last year. Earnings per share amounted to RMB0.369, representing a decrease of 20.82% as compared with the same period of last year.